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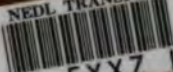
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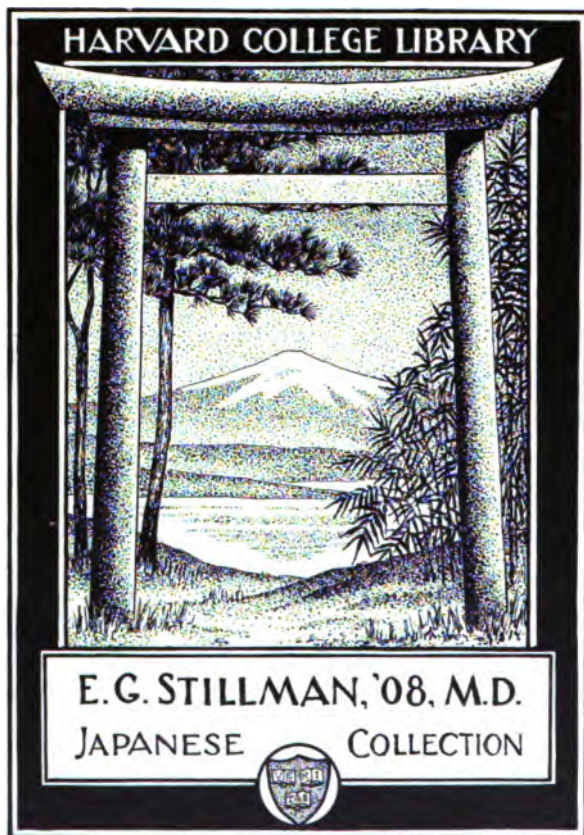
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THE
CURRENCY OF JAPAN.

A REPRINT OF
ARTICLES, LETTERS, AND OFFICIAL
REPORTS,

*PUBLISHED AT INTERVALS IN THE FOREIGN NEWSPAPERS OF JAPAN,
TOGETHER WITH TRANSLATIONS FROM JAPANESE JOURNALS,
RELATING TO THE CURRENCY, PAPER AND METALLIC,*

OF THE
EMPIRE OF JAPAN.

EDITED AND PUBLISHED BY REQUEST.

YOKOHAMA:

PRINTED AND PUBLISHED AT THE "JAPAN GAZETTE" OFFICE.

—
1882.

KF 5214



Ernest H. Stillman

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PREFACE.

THE subject of paper money in Japan, and its effect upon trade, internal and foreign, has been one of absorbing interest from the period when depreciation first attracted public attention six years ago. In the interval since then sudden and apparently unaccountable fluctuations have been witnessed: a rise or fall of even ten per cent. in one business day has not been rare: hourly changes have been recorded; and the knowledge that any sudden pressure for specie by the government or people would bring about a fall to which there would be practically no limit, are causes which have directly tended to harass trade and retard its natural advance.

Under such circumstances the theme became peculiarly attractive; and the foreign press of Japan dealt with it, and with each new scheme in connection therewith, in separate articles which disappeared with the newspapers containing them. As depreciation became more marked, a rise of prices was established throughout the country, and each successive measure to check the decline of government credit having been tried only to fail, men of business began to realise the truth of the warning so frequently uttered, namely, that the future of Japanese commerce is dependent upon the ability of the government to satisfactorily arrange the currency question: and a desire was expressed for the republica-

tion, in convenient form, of the more important articles, letters, and official reports which had appeared at intervals in the local newspapers. In compliance with this request, a compilation from the Yokohama journals published in 1876 and subsequent years was undertaken, and is now presented to the public with the assurance that the only alterations made by the editor have been of the most trifling character, chiefly typographical errors, and the omission of paragraphs which, useful at the time of their appearance, have been rendered irrelevant by effluxion of time.

It is right to add that, in some of the earlier articles passages appear which later acquired knowledge show to have been inaccurate: conclusions have been drawn upon unsound premises; and opinions have been expressed which subsequent events have gone far to falsify: but the reader will be good enough to remember that the articles now reprinted, especially the earlier of them, were written under peculiar difficulties. The conditions of the issue, its amount, the means of redemption, the specie reserve, the formation of national banks with power to issue notes forming an addition to the government currency in which their redemption was officially guaranteed; these and innumerable other matters, knowledge of which was essential to a thorough understanding of the question of Japanese paper currency, were only imperfectly ascertained by slow and painful research. That the articles which have been written on currency should prove, on the whole, substantially accurate, as shown by the light of subsequent events which have verified the predictions hesitatingly expressed at a period when the writers' knowledge of the ruling circumstances was imperfect and uncertain, is matter for congratulation; for it goes far in support of the writers' claims to

integrity and honesty of purpose in the discussion of a question of such vital importance to the Japanese nation. Some few passages may occasionally be met with couched in language stronger than the circumstances seemed to warrant. This will be felt more particularly by Japanese readers, who may regard them as strictures of undue severity and as evidences of disrespect towards Japan, her government and people. Before these considerations are permitted to have weight, readers should recognize the circumstances under which the articles were written; the nature of the matter dealt with; that the articles were composed for the information of men of business and not to wound the hyper-sensitive; and that principles and practices only were dealt with, though occasionally in language so plain as to seem offensive and purposely irritating. No intention to offend the susceptibilities of Japanese, even those most sensitive to criticism, animated the several writers whose opinions are now reprinted in this volume; they were rather moved by a warm desire to expose the position in all its worst features for the especial purpose of arousing public opinion to the necessity for devising an efficient remedy for an evil the full force of which none recognize more fully than the government of Japan; and in the reproduction of these articles it was deemed most advisable to present them as they originally appeared, in the belief that none of the writers desired to find an apologist in their editor.

W. H. T.

Yokohama, September 1882.

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THE CURRENCY OF JAPAN.

CHAPTER I.

THE ISSUE OF PAPER MONEY IN JAPAN.

THE first essential to a proper understanding of the depreciation of the paper currency of Japan is an outline of the circumstances of its issue, with dates of increase and diminution, and the reasons assigned. Until the early part of 1880, the public were ignorant of any of these particulars, the annual financial estimates, first published in 1873, giving no information beyond an imperfect and informal acknowledgment that a given sum of paper was in circulation. These annual estimates, in which the receipts were arranged to accurately balance the expenditure, and, at the same time, to show a "reserve fund" varying in amount from 80,000,000 yen to 50,000,000 yen set aside during years of financial administration, the earlier of which must have shown an expenditure in excess of revenue, while the later years merely balanced themselves without surplus or deficit, were eminently unsatisfactory. Beyond being merely estimates made by officers new to the science of government and inexperienced in business, no proof was afforded of the genuineness of the accounts, or even of the substantial accuracy of the principal items, which

An "actual" account published.

varied considerably year by year. The then finance minister, his excellency Okuma Shigenobu, having previously announced his intention to issue actual detailed accounts of revenue and expenditure, caused a statement to be drawn up, printed in English, and circulated among the representatives of the treaty powers, purporting to be "a statement of the actual receipts and expenditure of the nation, for the eight fiscal periods between the first year of Meiji (1868) and the sixth month of the eighth year of Meiji (June, 1875)." This statement, the importance of which must be measured by the fact that no other record of the actual financial operations of the government had been, or is ever likely to be, published, gives the following particulars of the origin and progress of the currency issue:—

This paper money was issued in order to meet the expenditures for the suppression of the rebellion or other extraordinary expenditures.

Amount issued by the present government.

The total of the issue from the 1st to the 5th year of Meiji inclusive, amounted to Yen 73,325,444.100, and the amounts issued in each fiscal year are as follows:

	Yen.
First term.....	24,037,389.813
Second term.....	23,962,610.187
Third term	5,354,512.500
Fourth term.....	2,145,487.500
Fifth term.....	17,825,444.100
Total	73,325,444.100

With respect to this issue, detailed explanation and exact accounts will be rendered after each section of the revenues and expenditures has been dealt with, but it is necessary here to give a short epitome of the same. The issue of so-called Daijo Kuwan satsu in the 1st and 2nd fiscal years was to meet the expenses of the war of the rebellion, which was waged during that period; for the development of internal industries in general; and, moreover, for extraordinary disbursements which could not be met in the same manner as ordinary expenditures.

Explanations of the circumstances.

The Miubusho paper money was issued in the 3rd and 4th terms in order to withdraw a part of the Daijo Kuwan satsu of large denominations, which were found inconvenient for

daily transactions. This issue was, therefore, of small denominations. About Yen 4,000,000 of the Daijo Kuwan satsu thus withdrawn were again put into circulation during the 4th term to meet certain extraordinary disbursements incurred through the abolition of the former division of the Han and the constitution of Ken in their stead. In the fifth term convertible paper money, amounting to Yen 9,300,000, Yen 2,500,000 of which was issued by the Kai Taku Shi, was put into circulation. This was done with the purpose of reducing the inconveniences caused by false tokens, or by the insufficiency of the new coins in circulation. In the same year there was another issue of more than Yen 8,525,000 of new paper money. This was uttered to meet the large expenditures which were continually demanded until the local administrations had been fairly settled, in this term, by abolitions, creations, separations and amalgamations of Ken. The local expenditures for this period increased by 786 per cent compared with those of the preceding term. The Departmental governmental departments (Sho) greatly developed their expenses largely increased. These changes enlarged the expenditures for both these items by more than 233 per cent compared with the previous term; and, furthermore, every item of outlay, with the exception of the Seito Hi (expenses for the war of the rebellion) had more or less developed. On the other hand none of the items of revenues for the same period had increased to any extent, except the land tax, which advanced by $76\frac{2}{10}$ per cent: receipts from government properties by $41\frac{1}{10}$ per cent; and repayments of ordinary and extraordinary loans by $27\frac{1}{10}$ per cent. (Income derived from the former Han increased greatly, but disbursements were of corresponding increment.) Under such circumstances the issue of a new paper currency was necessary to assist in surmounting the financial difficulties of that epoch. The total amount of paper currency in Total net issue. circulation on the 30th day of the 6th month of the 8th year of Meiji was more than Yen 94,803,819 (see estimates for the 9th fiscal year), showing an increase of upward of Yen 21,478,375 over the amount of the notes issued during the preceding five terms. The causes of this addition will be enumerated in Part II. of Chapter III. of this Book. (Page 10.)

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The matters connected with the issues of paper money have an important bearing on the whole of the financial arrangements of these eight fiscal years. Therefore, in the last part of Part I. of this chapter, the chief events which originally necessitated the issues of such currency have already been adverted to, so that there is no need to repeat them here.

Gross issue,
and by whom.

Still there is one point which requires some special attention. According to the estimate report for the 9th fiscal year, submitted some time ago to His Excellency Sanjo Saneyoshi, the total amount of paper money in circulation on the 30th of the 6th month of the 8th year of Meiji, was Yen 94,803,819.235, but in these actual accounts it is stated that the amount of paper money issued by the government was Yen 73,325,000. The discrepancy is due to the fact that the former sum includes the amount issued by the late Hans, the old Kens and the late Hatamoto (retainers of the Siogun). However, it would not be correct to consider the difference between those two sums namely, Yen 21,478,000, as the actual amount of paper money issued by them, which was, in fact, that given below:—

	Yen.
Paper money issued by the late Han	39,618,541.281
Paper money issued by the late Ken	720,819.090
Paper money issued by the late Hatamoto ...	21,688.332
Total.....	40,361,048.703

Redemption of
old currency.

Out of this sum, Yen 3,047,886.137, which were issued after the Restoration, were forbidden to be circulated by the Notification issued in the 12th month of the second year of Meiji, and the Hans and Kens which issued them were compelled to redeem them. But before the redemption reached scarcely half the amount, the resolution for abolishing the division of Han was passed, by the subsequent Notification issued in the 12th month of the 4th year of Meiji, the remainder, together with all other paper money issued by these old authorities, were estimated in terms of the new currency at the market rate on the 14th of the 7th month of the same year, which was the day when the abolition of the Han was announced. The amount of the old paper money thus obtained was only Yen 24,907,988.047 in terms of the new currency.

Depreciated
value of old
currency.

Such difference between the nominal amount of the paper money as appeared on its face, and the actual value it was thus shown to possess in terms of the new currency, was attributable to the depreciation of its market value at the time of the redemption. Indeed, the general condition of this circulating medium was such that scarcely any of it passed at par with the national money; and some of it was so much depreciated as only to cost one-fifth of its nominal value.

Net issue of old
currency.

Then, adding this actual amount of the paper money issued by the old authorities to what was issued by the

present government, the total sum of paper money in circulation on the 30th of the 6th month of the 8th year of Meiji was as follows:—

	Yen.
Amount issued by government authority ...	73,325,444.100
Amount issued by the old authorities	24,907,988.047
Total	98,233,432.147

Out of this sum of Yen 98,233,432.147, some was withdrawn from circulation before the 30th of the 6th month of the 8th year of Meiji, owing to the following circumstances, viz.: (1) a certain amount of paper money issued by different Kuwan and Sho, was redeemed by the issue of what were known as the bonds for redeeming the *kinsatsu*; (2) when the redemption of the paper money above the denomination of 5 sen issued by the Han, etc., was completed, a certain amount of this money was found to have been lost during circulation; (3) some of the paper money prepared for issue by the Han authorities was delivered over to the government, —together with the funds reserved for its redemption,—and was burnt by the government; (4) a certain amount of counterfeit paper money was forfeited to the government at the time of the general redemption. The following are the respective amounts of paper money thus withdrawn from circulation:—

	Yen.
Amount of paper money issued by the different departments of government exchanged for bonds for redeeming the <i>kinsatsu</i>	2,238,550.000
Amount of paper money issued by the old authorities	1,039,191.251
Amount forfeited of the late Han paper money	885,006.729
Amount of counterfeit paper money forfeited	204.932
Total	4,162,952.912
Amount of paper money remaining after deducting the portions withdrawn from circulation	94,070,479.235
Amount remaining unreturned of the paper money advanced to the Kai Taku Shi...	733,340.000
Total	94,803,819.235

[Note:—Some years before the 8th year of Meiji, a certain amount of reserved funds in paper money was advanced to the Kai Taku Shi, of which Yen 1,100,000 were returned from the same office, and what is given above is the remainder.]

Real amount in
circulation,
June 30, 1875.

This sum of Yen 94,803,819.235 was really the amount in actual circulation on the 30th of the 6th month of the 8th year of Meiji, and it will be seen that it exactly corresponds with what has been given in the "Estimated accounts" for the 9th fiscal year. As to the old paper money of the government, and also the paper money issued by the late Han and Ken authorities, and the Hatamoto, it was all declared to be redeemed by the new government paper money; and although a considerable amount of it was thus redeemed between the 7th month of the 5th year and the 7th month of the 8th year of Meiji, yet some still remained in circulation. The amounts were as follows:—

	Yen.
Dai Jo Kuwan paper money	11,525,120.812
Minbu Sho paper money	3,595,486.063
Convertible paper money	546,107.000
Old Han paper money	2,830,997.460
Total	18,497,711.335

This sum of Yen 18,497,711.335 of the old paper money has been taken into the calculation of the actual amount of paper money in circulation on the 30th of the 6th month of the 8th year of Meiji; and, therefore, after deducting it from the actual total, the remainder, Yen 76,306,107.900, represents the amount of the new paper money issued. (Page 21.)

Net issue
declared by
finance minister.

The amount positively stated, by the then finance minister, as in actual circulation on June 30th, 1875 was.. Yen 94,803,819

Since that date, the following changes have been shown by the annual statements made up to June 30th, of the years here given. The sums said to be in circulation, were the ascertained amounts on the 1st July of the first mentioned years.

	Year.	Added.	Withdrawn.	Balance.
Additions, redemptions, and net balances.	1876-77	—	749,088 ...	94,054,731
	1877-78	27,000,000	— ...	121,054,731
	1878-79	—	127,522 ...	120,927,209
	1879-80	—	7,499,217 ...	113,427,992
	1880-81	—	4,744,788 ...	108,683,204

This being the sum of government paper, the issues of the national banks must be next taken into consideration.

The national banks.

These institutions are founded upon the system adopted in the United States, in which country they have been found beneficial aids to commerce. The motives which animated the Japanese government in the creation of national banks are said to have been an impression that the amount of money in circulation was insufficient for the requirements of the new trade to which foreign intercourse had given an impetus; and a desire to assist the military class, or state pensioners, to utilize their capital by the formation of banks which should issue notes secured by government to the extent of the value of the pension bonds deposited in the treasury. The regulations governing these national banks, of interest in connection with paper currency, may be briefly stated to be :—

Motives for their creation.

Summary of the regulations.

1. The capital of any bank shall not be less than 100,000 yen; nor less than 200,000 yen if the population of the place where the head office is situate exceeds 100,000. In special cases permission may be obtained to open a bank with a capital of less than 100,000 but not less than 50,000 yen.
2. Each bank shall deposit government bonds in value equal to 80 per cent. of its capital in the treasury. The value of the bonds to be taken at the marketable rate; any fall in that value to be made good by the deposit of a proportionate extra sum.
3. 20 per cent. of the capital shall be held by the bank in government currency as a reserve for the exchange of its notes.

Capital.

Deposit of bonds in the treasury.

Reserve.

Notes.

4. Upon compliance with these conditions the bank will receive permission to issue notes to the full extent of the security deposited in the treasury.

Notes a legal tender.

5. These notes are made a legal tender by notification, for all purposes except the payment of customs duties and interest due to the government.

Note redemption.

6. The notes are redeemable either by the bank, or by the paper money bureau; in both events the exchange is effected by means of government paper currency; no specie passing in any case.

Rapid rise.

The laws were first promulgated in 1872, but it does not appear that any banks were founded prior to 1876, the date of establishment of the First National Bank being September 26th, 1876. From that time the rise of these institutions has been remarkable. They have sprung up like mushrooms, until, on October 18th, 1880. there were one hundred and fifty-three note-issuing national banks.

Number, capital, and note issue.

The growth in the five years, 1876 to 1880, was in the following ratio :—

<i>Year.</i>	<i>No.</i>		<i>Capital.</i>	<i>Note-issue.</i>
1876	5	... Yen	2,850,000 ...	2,319,998
1877	21	...	22,016,100 ...	19,932,863
1878	69	...	10,675,000 ...	7,405,135
1879	56	...	6,750,000 ...	4,715,385
1880	2	...	230,000 ...	120,000
<hr/>			<hr/>	<hr/>
153			42,521,100	34,493,381
<hr/>			<hr/>	<hr/>

Probabilities of full authorized issue being made.

A possibility exists that the authorized note issue may not be availed of to its full extent; but as, from time to time, applications to increase capital and add to the note issue are granted, it is reasonable to assume, for reasons to which we will hereafter refer, that the

gross sum is in circulation. The aggregate note issue forming the paper currency of Japan, is therefore ascertained to be, Total currency in circulation.

Government Kinsatsu Yen 108,688,204

National bank notes 84,498,381

Total 143,176,585

The largest bank in point of capital and note issue is the Fifteenth National Bank chartered May 27, 1877. The largest bank, and history of its foundation.
The history of its formation is a peculiar chapter in Japanese financial history. The following article appeared in the *Japan Gazette* of June 5, 1877.

THE KUAZOKU BANK.

Out of the capital of 17,826,000 yen, 15,000,000 yen will be advanced to the Finance Department bearing interest at 5 per cent. per annum unsecured. No bank with such a large capital has been established in the East. (*Nichi Nichi Shinbun*, 22nd May 1877.)

Most persons know that the establishment of a bank by the nobles club will supply the government with 15,000,000 yen, and thereupon the government will re-issue the paper money formerly issued by the Daijo-kuwan and Monbusho, but recalled and preserved at the Finance Department, which is supposed to keep a reserve for contingencies. (*Akebono Shinbun*, 25th May 1877.)

The establishment of the Kuazoku bank, long expected, is said to have been accomplished on the 21st May 1877, by special authority granted by the government. Contrary to the practice followed in Europe and America, no information is given to the public by the directors of the bank, as to its capital, nominal, subscribed, and paid up; or of the objects the promoters had in view in the formation of the concern; and we must therefore draw upon the meagre details furnished by the Japanese newspapers, and deduce such inferences as may appear legitimate, as to the probable business and means of an institution which boasts of a capital of some 5,000,000 yen in excess of that of the Oriental Bank Corporation. Taking the subscribed capital to be the sum stated, 17,820,000 yen, we find that rather imposing figure at once reduced by a loan of 15,000,000 yen made to the government. It has been already explained that a sum of about 18,000,000 yen is payable yearly by the government to the Kuazoku, as

interest upon the principal value of the real estate transferred to the crown, and it is that sum which was intended should form the capital of the bank. The inference, therefore, is that the government, finding themselves in a position rendering the payment of some 18,000,000 yen inconvenient, if not extremely difficult, performed the meritorious action of suggesting to the Kuazoku the wisdom of investing their money in such a manner as should insure its circulation for the common benefit of themselves and the country at large; instead of limiting it to the immediate use of their retainers. No better method of forwarding so good an object could be devised than the establishment of the Fifteenth National Bank, and to obtain the consent of the representatives of the leading nobles to the undertaking, would be no very difficult matter. The bank formed, the proprietors' inspectors appointed, and the staff organised, the government explain the position. The government will take 15,000,000 yen of your capital on loan without security, and pay you an annual interest of five per cent. The remainder, *if not already invested* in public works or other useful objects, will be at your disposal.

This, apparently, is the history of the formation of the Kuazoku bank; and we feel inclined to express our admiration for a scheme which relieves the government of a burden they could not meet, and enables them to come forward 15,000,000 yen richer than they were before the formation of the bank. In addition to these advantages there are others more substantial behind; the arrangement comes to with the Kuazoku entailed the surrender by them of their property, in consideration of receiving annuities calculated upon a scale of interest in proportion to their surrendered estates. If, therefore, the *Nichi Nichi Shinbun* is correct, the government have received the property, not for the consideration originally agreed upon, but, for this year at least, for five per cent, or one-twentieth of the amount of the interest they originally promised to pay. The whole affair is too improbable for foreigners to accept. Opposed to all principles of reason and business; reducing to a mere semblance the so-called bank, and bearing upon its face the strongest evidence of impracticability, we can only form one of two conclusions;—1st, that the argument used to induce the Kuazoku to accept such an arrangement must have been of the most subtle character, and the emanation of a remarkably clever mind; or, 2nd, that the Kuazoku have displayed a patriotic feeling of the loftiest character, by sacrificing their individual rights in support of the existing state of things and the suppression of the insurrection in the South.

Whichever view is correct one thing is certain. The expenses of the war, estimated to amount to nearly 20,000,000

yen, will, in greater portion, be defrayed out of the private purse of the Kuazoku.

These are the inferences to be drawn from the statement of the *Nichi Nichi Shinbun*, concerning the formation and capital of the bank; and that journal is also responsible for the inferred result of the action of the government in borrowing from their own people the interest justly due to them upon value taken over, a sign of financial poverty extremely detrimental to any views which Japan may have formed for the extension of her credit in foreign countries. It is to be hoped that if the bank is a reality the statements of the *Akebono* and *Nichi Nichi Shinbun* are incorrect, both for the credit of the government and the commerce of the country, which latter was intended to be forwarded and assisted by the large capital first supposed to be under the control of the bank.

With the exception of the First, Second, Fourth, Fifth, and possibly one or two others, the remainder are merely establishments founded by the military class, and possess no claim to the title of bank except the charter conferred by government. No banking business proper is ever transacted in these institutions.

CHAPTER II.

In the course of the year 1876, the failure of the European silk crop led to a large and excited demand for Japanese silk. The price of this staple increased 150 per cent. in four months; namely, from \$430 to \$445 for the class known as "No. 2½ hanks," in May, to \$1,050 to \$1,080 in September. The business of that season, larger in quantity, and at these much higher rates, brought in a considerable supply of Mexican dollars which, not being current in the interior of Japan, and being unsuitable for transport even if they had been so current, created an unusual demand for native currency, and the anomaly was presented of government

State of the
currency in
1876.

Currency at
5 % premium.

paper standing at a premium of five per cent. on the specie of which it was but the representative. This extraordinary position was dealt with in a series of five articles published in the *Japan Mail*, a paper then under the editorial control of Mr. W. G. Howell. With these articles we propose to open the history of paper currency in Japan.

THE CURRENCY.

September 16, 1876.

Profit on silk
affected by want
of circulating
currency.

In an article entitled *The Prospects of Trade*, in our issue of the 2nd instant, we pointed out the serious diminution of the profit which this country ought to have made upon its crop of silk this year, caused by the extraordinary rise in exchange which has occurred since the month of June. Then, as will be recollected, the dollar was worth only 8s. 10d. whereas the average cost of the coin with which the silk has been paid for may be fairly estimated at 4s. 4d. ; or a rise of 13 per cent, which is so much out of the pockets of the Japanese. If silver had risen in Europe to the same extent, there would not be room for a word of just complaint. But, for reasons with which we are all familiar, it has not done so, and the country has had to pay a very high premium upon the coin for which it has exchanged its produce. Yet this is not all. The coin must, before many months elapse, resume its normal relation to the price of bar silver, and, during the interval, another 10 or perhaps 13 per cent of its value may slip away. It may be pleaded that the country has reaped an enormous profit on its silk harvest ; that, under such an unusual pressure for money as the activity of the silk market displayed, the dollar must in any case have risen very much ; and that much of the money paid for silk has been received back from the Japanese at at least as high a rate as it went into their hands. These contentions are all sound, and we are not supposing that the country is losing from 20 to 26 per cent upon the value of the money passing through its hands. But we do plead that its profit has been very seriously curtailed by the conditions of the currency in which its business has been conducted, and it seems well at this moment to enquire whether the foundations on which that currency rests are such as to

permit the erection upon them of a solid structure of trade such as we must all be anxious to see in this country. It is only in times when institutions are strained by some exceptional conjuncture of circumstances that their inherent merits or demerits can be properly estimated. We are moving at this moment very rapidly and under very exceptional circumstances; and the question is whether we are doing so in accordance with sound principles, or whether, on the other hand, our loss by avoidable friction is not so great as almost to neutralize the advantage we derive from our increased speed.

Now, in order to test this, so far as we are able, let us enquire what has become of the large sums of money, amounting to something like eight or nine millions of dollars, which have been paid to the Japanese for silk and tea during the past two months. Part of them, of course, have come back to us for imports sold, but certainly only a small part. Where, then, is the balance? In order to answer this question we must first remember that these payments have been made almost entirely in Mexican dollars, a coin which has no circulation in the country, and is confined exclusively to the open ports. Had they been made in the currency of the country, the coin would have found its way by a thousand channels into the interior, there to represent, in the most convertible form, the wealth drawn from thence. But, being made in Mexican dollars which have no circulation in the country, these dollars must be heaped up in Yokohama, and must remain there until required for re-export. The silk and tea merchants have taken them to the native bankers and received paper in exchange for them, and this paper has again been sent into the interior. But in consequence of the great demand for paper, and the great superfluity of coin, the former has advanced to a premium of six and three quarters per cent, or, otherwise stated, the latter has fallen to a proportionate discount. All the disbursements of the silk reeler and tea producer have been made at or about par. For every *yen* due for rent and taxes, or expended on tools, machinery, wages, food, etc., he has paid a full *yen*. But for every 100 *yen* worth of produce he is now only receiving 93.25 *yen*, and though he may have made a large profit on his produce, that profit is considerably curtailed by the premium which his agent has had to

Large payments
to Japanese in
dollars.

Mexican dollars
do not circulate.

pay for the means of remittance. Here, again, as in the case of the high and declining dollars in which the Japanese have been paid for their silk at the port of shipment, this premium is a purely evanescent thing, and he who has paid it finds that something of it evaporates day by day. There will, of course, be a limit to this evaporation; but the limit is not known, and meanwhile he may fairly object that his money is liable to any such contingency.

The mischief, therefore, seems to lie in the fact that the currency of the ports is not that of the country.

Want of native coin or circulating media incites to speculation.

But the mischief, as it seems to us, will not stop here. These dollars will be largely held by the native banks, who, in their turn, will be anxious to put them to account. How can they do this? The probability seems to be that they will lend them to the import dealers, who will be tempted to borrow them on account of the discount at which they stand. The purchase of imports made under these circumstances will be of a speculative nature, without the basis of a real demand for consumption, and the goods will be sent into the interior in the hope and expectation of finding a market. But this hope will be to a great extent delusive. The growth of the demand for our manufactures is slow, and cannot be artificially developed by any forcing process. Thus, it appears to us, there will probably be a very considerable lock-up of capital in unsaleable commodities, and this is a bad thing in a country so poor as Japan. It causes stagnation in the ordinary regular trade of the country; leads to forced realization at very low prices, and consequent disasters to men whom it is to our interest to see strong, solvent and confident.

And leads to a lock-up of capital.

Remedy.

Issue of notes by government secured on silver deposited in the treasury.

There is one remedial measure which might be taken by Government to reduce the present plethora of the banks. It might issue its notes to the holders of the coin, giving paper dollar for silver dollar—at such rate, of course, as would induce the banker to part with his silver—and place the coin in its vaults. Nothing could be more legitimate than this operation, because for every dollar of currency issued, there would be a dollar of coin deposited in the Treasury. The transaction too, would be a profitable one. The Government paper stands at a heavy premium, so that the dollars could be purchased considerably below their value in sterling, and as the present discount on them will gradually disappear, they

could be used again when, or if, circumstances demanded such a course, to buy up the paper now standing at a premium, but then, in all probability at a small discount. We are no advocates for Treasury operations in currency. Money should regulate itself, and will always do so when the currency is on a sound basis. But, until this is the case, there is no doubt, as has been amply proved in America, that the Treasury may superintend the money machinery of the country with great advantage to its trade.

General
unwisdom of
treasury
operations.

We have pointed out what seems to us a partially remedial measure for some of the evils which at present beset the trade, or, perhaps rather, a mode by which they may be treated with advantage to the commercial classes and the Treasury alike. But it is clear that any such measures are temporary expedients, and that the currency in its present form demands a resort to them from time to time. This very fact seems to us declaratory of its imperfect or disorganized state. Money, as we have just said, should be allowed to regulate itself, which it will always do if the currency is on a sound foundation. How it can be so placed, we shall proceed to discuss in our next issue. It will be sufficient for the present that we have drawn attention to the very serious evils which attend the existing condition of affairs.

September 23, 1876.

We drew attention in our last issue to the diminution of profit sustained by the Japanese this year on their sales of produce, caused by the extremely high rate of exchange which ruled during the period when those sales were most active; and we pointed out that this diminution of profit was mainly due to the fact that these sales are, as matters now stand, necessarily made against Mexican dollars, a coin of limited supply, and therefore liable to serious fluctuation in case of an extraordinary demand for it. So great has this demand been this year, that although the coin is considerably less valuable, owing to its inferior fineness, than a similar weight of standard bar silver, it has risen as much as 8d. per ounce above the value of bar silver—a clear proof that the demand for it has been greater than the supply. We proceeded to show that these Mexican dollars, many millions of which have gone into the hands of the Japanese, do not enter into the metallic currency of the

Fluctuation of
Mexican dollars
consequent upon
their want of
currency.

country, because their circulation is entirely restricted to the ports in which alone they are a legal tender. Not one of them finds its way into the pocket of the silk or tea producer. And not only this. The producer has to pay a heavy premium upon the paper in which the proceeds of the sales of his produce are remitted to him. The paper currency in which such remittances have been made, stood last week at six and three quarters premium, and it is obvious that for every 100 dollars worth of silk or tea which he has reeled or grown, he only receives 93.25 dollars in currency, so long as this premium lasts. It is probable that the enhanced value of the currency here will lead to something of a similar result in the interior. But his engagements for the most part assume the shape of stipulated sums, and he thus gets no return in value for the premium he has paid on the paper which comes into his hands. In other words, he has to pay away, say 100 dollars, but has only 93.25 dollars to do it with. It is nothing to the point that he only sent down silk costing him 50 dollars, which, owing to the extraordinary rise in the market, has been sold for 100. The point is that instead of getting 100 dollars for it, as he should, he only gets 93.25. With a fact like this staring us in the face, it is idle to say that there is nothing wrong, and it would be the height of indolence and helplessness to allow it to remain so without investigation and some attempt at correction. If such a premium on exchange were necessary to remit the money ten thousand miles, there would be nothing very extraordinary or extravagant in it. But the producer lives within a hundred miles of his market, a letter from here reaches him in thirty hours, and a telegram in thirty minutes; and our plea is that this enormous premium on his remittance is out of all reasonable relation to the conditions of his case, and could only co-exist with, and be caused by, an entirely unsound condition of the currency.

The remedy
proposed.

We went on to show that this premium might legitimately be diminished by an increased issue of Government paper—the Government taking into the Treasury one silver dollar for every dollar of fresh currency so issued. On any other basis, any such increased issue of paper would be obviously unsound, and highly to be deprecated. But, on so sound a basis as this, it would not only be legitimate but advantageous—not only to

the Treasury, as we showed last week, but to the country. For, what does this premium indicate? The premium or discount at which a paper currency stands is at once the proof and the measure of its adequacy for the mercantile operations of a country. When it is at a discount, the amount of that discount is the measure of the over-supply of currency; when at a premium, it is the measure of the inadequacy of the currency to the demands upon it. The paper has so much more work to perform, and it can only do this by rising to a premium and thus representing more value than normally belongs to it. We particularly stated that we are no advocates for Treasury operations in currency as a principle or practice. The cure for all these evils is a currency which requires no such operations or interference, and which regulates itself. But until we have one in Japan, we may legitimately resort, and may even at times be compelled to resort, to regulative expedients, provided always, they do not violate first principles.

Having shewn how the present condition of affairs militates against the interest of the Japanese, we would draw attention to the fact that, under a different and opposite combination of circumstances, it equally militates against the interest of foreigners. Dollars are now at a heavy discount upon currency, for the sole reason that there is an excessive supply of them, and this supply is heaped up within a square mile which not one of them will leave except to be re-exported. But what happens if, under the converse of the case, they become very scarce? They rise to a premium among the native merchants—a premium, be it remembered, which does not advance their value in sterling—and the foreign merchant gets so much the fewer of them for his imports; precisely as he paid fewer of them to the native merchants, when, under the pressure of excessive demand, they advanced in sterling value. It is exactly the converse of the other case; and just as the Japanese suffer when Mexican dollars are in over-supply, so foreigners suffer when they are abnormally scarce. It was intelligible enough that, in the early days of foreign intercourse, the Mexican dollar should have been chosen as the most convenient coin for the foundation of our trade. But now that Japan has a Mint equal to all the demands which may be

Premium or
discount;
how caused.

Fluctuation
adverse to all
interests.

made on it, not only for the domestic and foreign trade, but for still larger purposes, why are we to continue transacting our business in a coin which is not the currency of the country, never travels a mile beyond the open ports, and the supply of which runs, or may run, short just at the moment when it is all important that it should be abundant? There can be no good reason for this, and it involves an anomaly to which the attention both of the Japanese and foreigners cannot be too soon or too carefully directed.

Final remedy.

What, then, appears to be the true, and, indeed, the only remedy for this anomalous condition of affairs, which, we imagine, all will readily acknowledge to be such? We think it will be found—

Silver standard.

First; in the adoption of a silver standard or unit; and

Convertible currency.

Second; in a resumption of specie payments, or, in other words, a convertible currency.

Gold standard objectionable.

As regards the first point, we have, as our readers must be well aware, always strongly opposed the creation of a gold standard or unit in this country; our main reason being that so long as silver is and remains the great medium of exchange throughout the East, Japan is only placing herself in an entirely false position in adopting a gold standard. We do not say that no plausible reasons could be, or were, adduced for adopting a gold unit. Doubtless the Finance Minister of the time thought that what England and America had done, could not be wrong; and his successor has been fortified in that belief by the example of Germany and Holland. And if Japan were an European country, they might have done well in thus deciding. But it is an Oriental country, and—in all probability—will remain so. Many curious things are and may be done in countries despotically governed, but it might have been better to realize once for all that Japan, whatever else it may do in the future, is obstinately a geographical fixture. And this ought undoubtedly to have been the guiding and determining fact. But it was not so. It was supposed that what two leading commercial nations had already done, and what one commercial and another very sagacious nation were about to do, could not be very wrong. And doubtless all these nations have done very rightly in their positions as European nations. But Japan was, we fear, too much influenced by the desire to

Situation of Japan, and her needs.

do what England and America had done because she wished to place herself on some imaginary footing with England and America. If we could only imagine these islands peopled by a race endowed with the shrewd practical sense of the English, we know very well what the decision in this case would have been. In their blunt way they would have said: "Let other nations do anything else they like or choose. Every tub on its own bottom. It is clear that our interest lies in adopting the standard of the continent with which we are most identified geographically, and whither we may send or whence we may draw supplies as circumstances may dictate. Chinese commerce demands an enormous supply of coin, and this is now furnished by Mexico or the South American Republics. Before long, *we* will supply it, and shall find our advantage in doing so. If we coin gold till doomsday, the Chinese will never take it except for the melting-pot, and what good is that to us? We will take lessons from the other side of the world which promise us any solid advantages. But we will not imitate England or any other country for imitation's sake, and are not going to leave the dictates of solid common sense with the sole result of making ourselves poor and ridiculous."

And what, as a matter of fact, has come of all this gold standard and gold coining? Three fourths of the gold have been melted, and the expense of minting it has been lost to the country for ever. The theoretical arguments for a silver standard were very strong, but they were rejected. The actual working of the question has cogently and amply confirmed them. Will the Government persist in its error? Instead of taking sound advice, it fell, as usual, into the hands of quacks, and all its coinage has run away. Its plight is that against which the Pedlar warned Dame Eleanor Spearing.

Disappearance
of gold coins.

"You may go to surgical chaps, if you choose,
Who will blow up your tubes like copper flues,
Or cut your tonsils right away,
As you'd shell out your almonds for Christmas-day,
And after all a matter of doubt,
Whether you ever would hear the shout
Of the little blackguards that bawl about,
There you go with your tonsils out!

But it is only right to say that before any agreement could be arrived at by the Representatives of the Foreign Powers to accept the Japanese metallic currency as a

Guarantees
required for
purity of
a mintage.

basis for the trade carried on by their subjects or citizens, ample guarantees would have to be given for the purity and weight of such currency. At one time this was assured, and if the system had been adhered to which produced the assurance, or one equally good substituted for it, there would have been no difficulty in getting the coin accepted in China and the Straits Settlements. But it is idle to hope for any thing of this kind so long as the Mint is under the direction of a Japanese master. On this point there must not be the smallest shadow of a doubt.

Foreign master
of mint.

And why should Japanese pride be so grievously wounded by the employment of a foreign Mint-master? Is it not wounded by the fact that no one will *now* take the coin? Is it nothing that Shanghai, Hongkong, Foochow, Singapore and Penang will not look at it? This seems to us a wound infinitely harder to bear—one into which no balm can be poured. For it, there is no Gilead, and neither poppy nor mandragora can soothe its eternal ache.

Benefits
therefrom.

The other admits of far more lenitive treatment. It may not be agreeable—though really it need not be very disagreeable—to have a foreign Mint-master at Osaka. Unless the Finance Minister is a Haman—and we are very sure he is not—why should it irk him so much that Mordecai sits at the coin gate? Is it nothing that, through him, confidence will be produced throughout Asia in the coin of the Japanese Government? Is it nothing that that coin should raise the credit and reputation of the nations, and be, so to speak, a conquering coin? Though it do not now bear the image and superscription of Cæsar, it may do so years hence, and as no coin can leave this country and remain in circulation abroad except to its direct and indirect advantage, Japan will profit by the export of its specie, which will then be a manufactured article in demand among the oriental nations. Is not this an object worth sacrificing something for? Would it not be a truer patriotism to prefer the manifest advantage of the country to a feeling of pride eternally incompatible with that advantage?

But we have trespassed so long on the patience of our readers, that we must leave the subject of a convertible currency, or a return to specie payments, until next week.

September 30, 1876.

We trust we have made clear to our readers in the *Digest of two* two foregoing articles on this subject, the following *preceding* points :—
articles.

1st.—That the Japanese have suffered a serious diminution of the profit which their trade with us this year might and ought to have given them; that this fact is attributable to the unsuitable nature of the currency in which that trade has been prosecuted; and that the same cause, under an opposite, but quite possible, combination of circumstances, will have a similar detrimental effect upon the interests of foreigners.

2nd.—That as the Mexican dollar is not current in this country; that as it will certainly not be made so in view of the fact that the Japanese have a Mint of their own of ample power to produce coin enough for all the wants of their and our trade; and that this dollar is liable to serious fluctuation over and above that which attaches to the value of the metal of which it is made; it is an unsuitable coin for the commercial purposes of the country.

3rd.—That the commercial transactions of the open ports should be carried on in a coin which is the currency of the country, and that this coin should be a Japanese dollar, coined under sufficient guarantees that it will be of a fixed weight and fineness, and produced in quantities large enough for the purposes of the foreign trade.

We shall now attempt to show that the monetary *Monetary* system of this country requires to be placed upon a new *system must be* footing; and shall endeavour, with such facts as we *placed on new* possess, to show how this can be done, what dangers *base.* attend the change, and what precautions may be taken to guard against them.

In regard to the first point, the main monetary *Present system.* system of this country is an inconvertible paper currency, and in order to show the evils attendant upon, and inseparable from, such a currency, we shall give the following opinions of men whose reputations are sufficient guarantees for the value the world has agreed to place on their views.

Before doing so, however, we should warn our readers, *Dangers of a* and our Japanese readers especially, that there is no *paper currency.* sphere of human thought and activity which has been more thickly beset than this by quacks and impostors.

In no other direction have men advanced specious, and yet utterly unsound, theories, with so much confidence, so much success of persuasion, and so much consequent mischief. The semi-scientific visionary may, like the philosopher in *Rasselas*, persuade his few dupes that he possesses, and they may acquire, the art of traversing the air with wings. But no bones are broken save their own; and, in other similar cases, the mischief worked by ignorant faith or designing knavery is confined to a small circumference. Not so, however, with the ignorant but successful currency schemer. He invades every house in an empire, casts sand instead of oil upon the wheels of industry, puts enmity between every creditor and his debtor, plunders the poor, plays into the hands of the rich oppressor, and raises hopes which have no real basis of existence, but the collapse of which only makes the pangs of poverty more bitter and unbearable. That we have not overstated these evils, the following quotations will fully prove. We will first take the English economists and statesmen.

J. S. Mill.

John Stuart Mill says:—

“To the increase of inconvertible paper (if permitted by law), there is no check. The issuers may add to it indefinitely, lowering its value and raising prices in proportion; they may, in other words, depreciate the currency without limit. Such a power, in whomsoever vested, is an intolerable evil.”

Again:—

“The substitution of paper for metallic currency is a national gain; any further increase of paper beyond this is but a form of robbery.”—(*Vol: 2, Book III, Chap. 13. Political Economy*.)

W. S. Jevons.

Professor W. Stanley Jevons says:—

“The issue of an inconvertible money * * * has often been recommended as a convenient means of making a forced loan from the people, when the finances of the government are in a desperate condition. It is true that money may be thus easily abstracted from the people, and the government debts are effectually lessened. At the same time, however, every private debtor is enabled to take a forced contribution from his creditor. A government should, indeed, be in a desperate position,

which ventures thus to break all social contracts and relations which it was created to preserve."*—
"Money," page 236.

Professor Bonamy Price says :—

Bonamy Price.

"An inconvertible note is tainted with the worst vice which a currency can possess — unsteadiness of value. * * * * The debasement of the tool of exchange is an annoying and mischievous nuisance, thrust into a region from which it should be rigorously excluded, the exchanging of the necessities and enjoyments required by civilization. It is thrust in for a motive absolutely unconnected with the sole purpose for which any currency exists and passes into universal use. * * * The change in the nature of the currency tells on every price in every shop or store—for price is only the quantity of currency computed to be equal to the value of the goods.

* * * Every sale on credit is converted into gambling, and what but pure harm can come from adding an inevitable element of gambling to every shop-keeper's accounts, to every bill which moves the operations of commerce, to every purchase of a house or farm which covenants, for the payment of a rent of so many dollars or pounds for a number of years, to every man who lives by the interest of the national debt of the country?† * * * *

As long as inconvertible currency lasts, it never ceases to harass trade and every commercial dealing between man and man. The harm is renewed day after day, week after week, year after year. A bad, unsound, untrustworthy currency persecutes society at every turn and brings loss on all but gamblers. It poisons every sale as the days roll on, every exchange; and what is human life but making and exchanging?

The moral which these facts teach is clear. Overwhelming necessity may excuse the original imposition of so easy but so vicious a tax, but the pressure once over, *not an hour should be lost by any legislature which has any knowledge of the nature and working of money, to arrest the plague and sweep away inconvertible paper.*

* This of course applies equally if the *new money* is issued in the form of loans on the plea of stimulating industry, or indeed on any plea.—ED. J.W.M.

† He might have said, "to every man who lives by a *fixed income*," no matter from what source derived.—ED. J.W.M.

* * * An inconvertible currency is incapable of being defended. It may have had an excusable origin in an overwhelming political situation, and if maintained for a brief time only may do comparatively small harm. But its continuance is loaded with every repeated calamity to a country. In England, no man of the smallest eminence comes forward to defend such a currency; its radical and incurable badness is the settled conviction of the English people." (*Currency and Banking.*)

Sir R. Peel.

Sir R. Peel :—

"In the debate of 1839 on currency said that the "excess of commercial speculation which led to such evils was the consequence of an over issue of paper currency, and this was a fact not to be disputed."

Lord Grenville.

Lord Grenville :—

"In the same debate, declared that "an irredeemable paper currency was, under any circumstances, a greater evil than good; that, he hoped it would be recorded of him as his decided conviction, that in proportion to the danger under which the country laboured, he would almost say, in proportion to the extent of that danger, was the impolicy and desperate madness of such a measure as they were now considering how to rescind * * * He could show how the miseries of 1816 followed on the issues of the preceding year and how they led to a fearful depreciation, and, without any fault of individuals, by the mere force of the system, involved the whole kingdom in one general desolation. Not only its trade and commerce, but its agriculture, its landed interest, even classes of the most remote from connection with, or even knowledge of the paper system, found themselves suddenly consigned to total and inexplicable ruin. If their lordships could see at their bar, not merely the victims of commercial failure, but those numerous persons of all ages, sexes, and classes, who had unconsciously suffered without even understanding how or whence the evil fell upon them, such a spectacle would fill their lordships with horror, and he sincerely believed that not only would no voice be raised for the maintenance of such a system in commerce, but not even in war."

Mr. Walter Bagehot says :—

Walter Bagehot.

“Inconvertible paper issued by government is sure to be issued in great quantities, as the American currency soon was; it is sure to be depreciated as against coin; it is sure to disturb values and to derange markets; it is certain to defraud the lender; it is certain to give the borrower more than he ought to have.”

We will now turn to the American authorities.

Pelotiah Webster says :—

Pelotiah Webster.

“We have suffered more from this cause than from every other cause or calamity. It has killed more men, pervaded and corrupted the choicest interests of our country more, and done more injustice, than even the arms and artifices of our enemy.”

Daniel Webster says :—

Daniel Webster.

“A disordered currency is one of the greatest political evils. It undermines the virtues necessary for the support of the social system, and encourages propensities destructive to its happiness. It wars against industry, frugality, and economy, and it fosters the evil spirits of extravagance and speculation. Of all the contrivances for cheating the labouring classes of mankind, none has been more effectual than that which deludes them with paper money. This is the most effectual of inventions to fertilise the rich man's field by the sweat of the poor man's brow.

Ordinary tyranny, oppression, excessive taxation, these bear lightly on the happiness and the means of the community compared with fraudulent currencies and the robberies committed by depreciated paper. Our own history has recorded for our instruction enough, and more than enough, of the demoralising tendency, the injustice and the intolerable oppression on the virtuous and well disposed of a degraded paper currency.”

Professor Perry says :—

Perry.

“The distress and consternation into which a country falls when its measure of value is disturbed and destroyed is past all powers of description.”

Professor Sumner says :—

Sumner.

“An irredeemable paper currency is a national calamity of the first magnitude, of which one may

indeed find greater or less examples, but of which the least is a peremptory warning to statesmen and financiers. It is like a disease in the blood, undermining the constitution and spreading decay through all the arteries of business. A young and vigorous nation, with a sound political system, may stand it far better than an old one, with feudal traditions; but in its measure and according to circumstances it is pernicious if not fatal. It is not like an acute disease; it is like an invalid state with occasional fever.

Evils. We shall now pass on to enumerate certain specific evils caused by inconvertible issues.

Bagehot. 1.—Damage to national credit.

"In the case of America there was a further evil. Being a new country she ought in her times of financial want to borrow of old countries, but the old countries were frightened by the probable issue of unlimited inconvertible paper and they would not lend a shilling. The Northern States raised no loans in Lombard St., and could raise none because of their vicious paper money."—(*Bagehot*.)

Daniel Webster. Daniel Webster said upon one occasion, that Alexander Hamilton had "*raised the credit of the United States from the dead*." This striking remark was caused in a great measure by the success of Hamilton's scheme for returning to specie payments.

Over-issue. 2.—The temptation to over-issue, and to pass prescribed limits.

Mill. J. S. Mill says on this subject:—

"The temptation to over issue, in certain financial emergencies, is so strong, that nothing is admissible which can tend, in however slight a degree, to weaken the barriers that restrain it."

Macleod. Henry Dunning Macleod says:—

"There is no instance in any country in which any persons, public or private, having been invested with the power of issuing notes unlimited in amount and denomination, have not abused it, and produced such calamities as to make men almost curse the very power itself."

Professor Jevons says:—

Jevons.

“Russia has had a depreciated currency for more than a hundred years, and the history of it may be read in M. Wolowsky’s work on the finances of Russia. *Repeated limits* were placed to its issue by imperial edict, but the next war always led to further issues.”

Professor Perry says:—

Perry.

“There never has been a government yet, of the many which have issued irredeemable paper, which had the wisdom, and the firmness to resist *for any great length of time* the temptation to emit large quantities.”

Again:—

“There never was a government yet, of all those which have attempted the issue of inconvertible paper, which had prudence and firmness enough to resist, *for any great length of time*, the temptation to issue such paper in excess.”

EXAMPLES.

In 1867 the United States passed a National Banking law authorising the issue of \$300,000,000 of inconvertible paper. On July of 1870 \$54,000,000 more was authorised, and at the present moment the existence of the inflationist party in the U. S. sufficiently proves that the danger of further issues is not over.

Austria groans beneath successive issues, as do Russia, and Italy. So late as 1865 there was a *Cours forcé* of paper in the last named country.

Professor Sumner says:—

Sumner.

“Whatever strength a nation has is weakened by issuing legal tender notes. One might as well say that it is necessary to open the veins of a weak man who has a heavy physical task to perform. All history shows that paper money with a forced circulation is not a temporary resource. It cannot be taken up and laid down as we choose.”

Again:—

“Nearly every nation which has ever used paper money has fixed its amount, and set limits which it has solemnly promised again and again not to pass. But such promises are vain. The intention, when they are made, is honest, but it is impossible to keep them. A man might as well jump off a precipice intending to stop half way down.”

Its effect on a people.

3.—It undermines social morality. A writer in the *Journal des Economists* of September 1868, commenting upon the excessive Austrian paper money issues, says that Vienna is outwardly grandiose and pretentious, but badly drained and otherwise provided, that the character of the people is light and frivolous, and he refers these phenomena to the financial disorder and paper money as chief causes."

Want of elasticity.
Jevons.

4.—Want of elasticity.

Professor Jevons says :—

"A further objection to a paper money inconvertible into coin is that it cannot be varied in quantity by the natural action of trade. No one can export it or import it like coin, and no one but the Government or banks authorized by Government can issue or cancel it. Hence if trade becomes brisk, nothing but a decree of the Government can supply the requisite increase of circulating medium, and if this be put afloat and trade relapse into dullness, the currency becomes redundant and falls in value. Now, even the best informed Government Department cannot be trusted to judge wisely and impartially when more money is wanted. Currency must be supplied, like all other commodities, according to the free action of the laws of supply and demand."

Macleod.

Henry Dunning Macleod says :—

"Bullion is not only the sole proper basis of a paper currency, but is the only true *regulator* of its amount."

Multitude of authorities.

We might, were it necessary, endlessly add to these opinions by quoting from the works of the great French economists, Bastiat, Michael Chevalier and others. But it is needless. The writers we have cited are authorities of the highest class; and it must always be remembered that as experimental science advances, false theories and the names of their authors die out, while truth and its exponents gain a firmer hold upon the opinion, and even increasingly influence the course of action, of mankind. All these authorities agree as to the fact—for long and repeated experience has placed it beyond the condition of an opinion—that an inconvertible currency is an evil of enormous magnitude; and as the paper currency of this country is an inconvertible one, Japan is suffering

from this evil, and the facts adduced in our previous articles show how grievously it is operating to her detriment.

The simple fact is that when the Mint was established, no one seems to have grasped clearly the all-important truth that the first great requisite, before setting it in motion, was to put the currency upon a sound footing. Now, it is no use whatever to make coin if, at the same time, you have an inconvertible currency the issue of which is liable to be increased at any moment to meet the financial exigences of a Government. So fast as the coin is made it will run away, as it has done here and will do everywhere else under the same condition. The reason for this is not always clearly apprehended, but it lies in the fact that every fresh issue of currency depreciates, proportionately to its amount, the value of the paper already afloat. This depreciation is not visible to the eye, or to the uninstructed mind, which does not know where to look for the evidence of it. But the instructed mind sees it in a rise in the value of all commodities; with this, fresh inducements to importations from abroad; and, as a consequence, an export of the gold to pay for them.

It is obvious, therefore, that beyond the production of a copper or subsidiary silver coinage, no permanent purpose can be subserved by the establishment of a Mint unless the whole currency system is under proper regulation. It is not long ago that Italy found this out greatly to her cost. She coined a large quantity of money with the object of introducing greater certainty into the transactions of every day life. But, shortly afterwards, she increased her issues of paper, thereby, of course, enlarging the volume of her currency, and the silver and gold at once left the country. While the present condition of things continues in Japan, we may, indeed, we must, look for a continuance of the divorce of the Mint from the currency.

There is but one remedy for all this, viz., a return to specie payment, or, in other words, a convertible currency. The question must therefore be asked: What evidence is there that the country is in a position to make this change within a reasonable period?

To this we reply:—Too little, perhaps, to enable us to judge accurately and pronounce positively. Yet we are not without facts to guide us. In some of the pro-

Sound basis
a first necessity
of currency.

Mint a secondary
consideration.

The only
remedy.

Possibility of a
return to specie
payments.

vinces,—in Kagoshima, for instance,—we are informed, on excellent authority, that gold, silver and paper circulate freely on a perfect equality, and, if this be so, the same thing is doubtless to be seen elsewhere. Admitting that the present high premium on the paper currency is the result of the great demand for it caused by the late unusual activity of the silk market, it is a fact that for a long time paper and gold have circulated very much on a par in the open market, and this is proof positive that the quantity of the former afloat is in no way excessive. Whatever may have been the case ten years ago, we do not believe that the Government of this country could prevent the paper currency falling to a discount were the issue of it excessive, and the conclusion is thus forced upon us that there is no such excess of it.

Net sum to be redeemed.

But, it will be asked; Is there not something like ninety millions of paper currency afloat in the Empire? Is it proposed to declare all this convertible with such a small metallic reserve as the Government now possesses?

In reply, we would observe that, out of this large amount, about 32,000,000 consists of fractional currency required for the small purposes of every day life, (27,000,000 of the new Frankfort *satz*, and about 5½ millions of the old issue which is being gradually exchanged for these new *satz*). Of course this need not be taken into account. The notes pass from hand to hand as readily as coin, they are extremely useful, and no one who possesses two or three dollars worth of them would dream of demanding silver for them.

Then, there is always a considerable quantity of currency in the hands of the Treasury, paid in on account of taxes, and greater or less according to the time of year. The amount varies from 3 millions, below which it never falls, to 11 millions, beyond which it rarely rises. We will taken it at its worst and call it 3 millions. Thus we have:—

Fractional Currency.....	Yen 32,400,000
Paper in the Treasury	„ 3,000,000

Yen 35,400,000

Subtract this sum from the 90,000,000 which we have supposed to be afloat, and we have 54,600,000 to reckon with.

Yet, not fully this. It will be remembered that, in

one of his more recent Financial Statements, the Finance Minister showed that the amount of the issue of the old *han* had never been correctly ascertained, in spite of all the pains which had been taken to arrive at it. Nor will the extent of the liabilities which were taken over from the *han* by the Government at the Restoration be accurately known until next July, the limit fixed some time ago beyond which the Government will not exchange the old for the new currency. But, meantime, there are good reasons for believing that the amount out is considerably smaller than was at one time supposed, and we do not think we shall prove to be far wrong if we strike the odd 4,600,000 *yen* off the above total. This leaves us with *yen* 50,000,000, the responsibility imposed by which we must look steadily in the face.

Now, it is usually presumed that if from a third to Proportion of a half of metallic reserve is kept against a government reserve. paper money which is in fair credit with a people, there is no danger in a convertible paper currency. Let us say, then, that 25,000,000 of silver or gold must be kept in the Treasury, and we agree that nothing less than this would be safe. How is this amount to be made up?

So far as we can judge, there must now be about Deficiency of 16,000,000 *yen* in cash in the Finance Minister's hands. reserve. We shall not pretend to be entirely accurate in these figures, or to be able to verify them until the appearance of the next Budget. But we think we are not far wrong, and this leaves us with 9,000,000 yet to provide, and we shall at once admit a serious difficulty in furnishing this. But it should be remembered that there is no easy escape from the great evils of an inconvertible currency. You cannot get out of such a difficulty as that in which this country is placed, without effort, sacrifice, trouble, and, possibly, assistance. But if by making this effort and sacrifice, taking this trouble, or even asking this assistance, you can subdue an evil admitted on all hands to be of enormous magnitude and paralysing effect,—if you can get off the steep incline down which you must always have a tendency to slide, and often find yourself sliding,—if you can discard a thoroughly bad principle, and adopt a thoroughly good one, that is to say, *hard money*, with all its attendant advantages and blessings—you cannot be doing wrong. More than this. You are

bound to adopt such a course, for the only alternative is impotent palsy.

Loan seems
a necessity.

To speak frankly, we do not see how this nine millions is to be provided without a foreign loan, and we know that the opinion of the country is against a resort to this means. The feeling is an admirable one. It proves that there is a sound determination on the part of the nation to extricate itself by its own efforts from the difficulties into which it has fallen, and we should be the last to run counter to it. But in this case we plead that something must be done, some feeling must be waived, some determined course adopted. We must say with Lear,

Where the greater malady is fix'd,
The lesser is scarce felt. Thou'dst shun a bear:
But if thy flight lay toward the raging sea,
Thou'dst meet the bear i' the mouth.

The burden of a small additional foreign loan is a feather weight beside that of an inconvertible currency. No wise man will say that a foreign loan, as such, is necessarily a bad thing, and there are many cases in which he would say that it was a very good thing. But no wise man ever pleaded that an inconvertible currency was a good thing, or other than a grievous and most intolerable thing.

Amount may be
much reduced.

Yet, the amount of foreign assistance necessary might be much smaller than the sum we speak of, and for the following reasons.

The country saves from eight to ten millions of *yen* annually by the late measure for capitalizing the incomes of the nobles and gentry, and if this is not to go towards the diminution of the land-tax—of which we yet see no sign—how could it be better bestowed than in a withdrawal to that extent of the paper currency? provided, of course, a proper quantity were always kept in circulation for the wants of the country, and this could always be ascertained by the premium or discount at which it stood in the market. Every ten millions so used would reduce the amount of the necessary metallic reserve in the Treasury in advancing proportion, because safety grows in an increasing rate the nearer it is approached.

Advantage of
silver currency.

There is one great advantage, of what might be termed a mechanical nature, which a silver currency, such as we have proposed for this country, has over a

gold currency, and this is a most important factor in the question of how much metallic reserve must be maintained in relation to the paper in circulation. It is far more cumbrous than gold. No man will carry about ten sovereigns if he can get two five-pound notes and ready change for them. Far less would he carry about ten pounds worth of silver, and the same thing applies quite as much to the large transactions of commerce. It is certain that if men were assured that they could obtain silver for their notes on application at certain centres of distribution, the quantity of such notes presented for payment, though it might be considerable for three or six months, would be small after that time, and that, this fact once thoroughly realized throughout the empire, the demand for coin would be far smaller than if we possessed a gold unit and currency.

There is yet one contingency against which we have not provided, viz., the quantity of paper which may be hoarded in the country. This may be considerable, and it would be brought out for conversion into silver directly the currency was made convertible. In order to meet this demand we should propose to issue a note or bill payable at sight or a short date, but bearing a small interest, say 2 per cent, which would present greater attractions to hoarders than purely barren metal or paper. The tendency to hoard and the practice of hoarding, universal in all countries, but specially prevalent in the East, must be reckoned with and provided for. The deposits in the Post-office Savings Banks will gradually do something in this direction, but the Postmaster General's Report for 1875 proves conclusively that very little must be hoped for in this direction for many years to come.

Hoarded
currency,
and provi-
sion therefor.

We have now gone so far—at a sad expense to our readers, we fear, but in the earnest hope that we have drawn attention to a great evil, and to the necessity, at least, of remedying it, if not to the means by which it may be remedied—that we must shortly state what seems to us the proper course to take in order to put the currency on a proper footing.

The course to
pursue with
most advantage.

Of the return to the silver unit and currency we wrote last week, and with this as a basis for the future, and the assurance that in case of need a load of a million and a half, or at most two millions, could be negotiated in London—of which there can be no doubt

Government
redemption.

Confidence
would be
restored.

Misery due to
depreciation.

System is at
fault.

whatever—but which may, after all, not be necessary, the Government could announce that in two, or at the outside, in three years from some given day, all its floating currency would be exchangeable for silver. The immediate consequence of this would be an enormous accession to its strength and credit both here and in Europe. The paper currency would have new life and vigour imparted to it, and every debtor and creditor throughout the Empire would feel that the settlement of their respective liabilities would be attended by a certainty unknown in the previous history of the nation. The present generation of Englishmen knows nothing of the misery resulting from depreciated and fluctuating currency. But let those who have lived in Austria, Italy and Spain give their testimony. Or let those who have no such experience, read Lord Macaulay's description of the national confusion arising from this cause which existed in William the Third's time, and the relief afforded to the nation by the restoration of the currency. If they do this, they will soon see, and at once confess, that there are few evils of so great a magnitude in a struggling and advancing society, as a medium of exchange which no one can trust. The Japanese statesman who will grapple with this question, and solve it, will do more for his country than any other man has any chance of doing, because, as Webster says, in the words we have quoted above, "Ordinary tyranny, oppression, excessive taxation, these bear lightly on the happiness of the mass of the community compared with fraudulent currencies and the robberies committed by depreciated paper." And do not let us imagine that because we have not seen all the evils of this bad system in this country they are to be escaped if we continue to pursue it. We have at this moment a Finance Minister who, so far as we can judge, fully apprehends the evils of a bad system, because he is wise enough to be guided by conclusions arrived at by an induction from facts. But, so long as you have a bad system, you are liable to be cursed with the vices inherent in it. You might to-morrow find the finances in the hands of an inflationist who thought the trade of the country required "the vivifying influence of an abundant paper circulation," and who proceeded to act upon this monstrous chimera. We are only a few thousands of miles, and are within too easy reach of a

country where the unfathomable ignorance of political economy always displayed by democracies is in full play, and where all the most strenuous efforts of sound and wise men are only just sufficient to keep the horse's heads in the right direction. We are now in this country, so far as practice is concerned, in a *soft-money* stage. Let us learn to look on a soft-money man as the incarnation of all evil, and fortify ourselves in an absolute intolerance of the system, admitting no truce or possibility of truce with it, and regarding it as impoverishing, vicious, demoralizing and fatal.

October 14, 1876.

If we have been fortunate enough to find any attentive readers of our three previous articles on this subject, they will in all probability have noted several points on which we have not yet replied. We purpose on the present occasion to deal with these, or such as have suggested themselves to us, and at the same time to reply to the only serious attempt which has been made to traverse the position we have taken up. Points not yet dealt with.

One of the first points which suggests itself is this: Reserve for
—How do we know that a reserve of 25,000,000 *yen* will be sufficient to meet a double drain coincident in point of ‘drains’ of specie.
time? That is to say:

- 1.—A drain for export to liquidate an adverse balance of trade. Causes of ‘drains’ of specie.
- 2.—A drain for internal use originating in a possible loss of confidence in the Government paper, or in other causes.

It is not enough that the country should be safe in the event of either one of these contingencies occurring alone. It must be safe even though both should occur together. Precautions.

It must be observed at the outset that the effect of such drains, although identical as regards the *metallic reserve*, are essentially different as regards the *currency*. Fluctuation of money contains its own remedy. When a drain for internal purposes takes place, no change occurs in the volume of the currency. So many coins take the place of so much paper—that is all. But when a drain for export sets in, it is clear that by exactly the amount of coin exported is the volume of the currency decreased. Now the tendency of a decrease in

Prices of
commodities
depend upon the
quantity of
money in
circulation.

the volume of the currency will be to check a drain. The longer such drain goes on, the less likely is it to continue, in consequence of the increasing diminution in the volume of the currency. It must be borne in mind that the relations between the commodities and the money of any country depend upon the quantities of both. In other words, the prices of commodities depend upon the quantity of money circulating. This quantity of money, therefore, can neither be increased nor diminished without altering the relations which exist between money and commodities, unless, of course, the commodities themselves are increased or diminished to the same extent. Given, an increase of money, but no increase of commodities, and prices rise, *i.e.*, money becomes less valuable: given, a decrease of money, but no decrease of commodities, and prices fall, *i.e.*, money is more valuable. It is obvious, therefore, that the rise in prices which takes place under an inflated currency and leads to an export of gold, has its converse in the fall of prices which follows a contraction of the currency and attracts the gold back again. It may, therefore, be predicted with entire certainty that under a convertible paper system no drain could go on very long, and it is most important to remember that a currency founded on this sole sound basis, becomes self-regulating, calling in the gold when the economical conditions demand it, and parting with it when nothing but benefit results from the outflow. Nothing resembling the drain we have seen during the past six years could possibly occur, even supposing there were gold enough in the country to permit the repetition of it. This drain was the immediate and inevitable result of the issue of an inconvertible currency necessitated by a state exigency of the first order, and we can only be too thankful that the injury it did to the country has been confined to the very reparable one of the extrusion of its gold. Had the Revolution lasted two years longer, nothing could have prevented the fearful misery which attends the wholesale depreciation of an inconvertible currency; whereas the contraction of the total currency of the Empire caused by the outflow of the gold, has served to keep the paper, generally speaking, at par.

Encouragement
of home
manufactures.

Another point here worthy of remark is, that any legislation which would have the effect of encouraging the home manufactures, without resorting to a system

of protection by tariffs—an expedient which no wise economist would for a moment suggest in the present state of the world's knowledge on this subject—specially deserves attention. The distress existing in this country is very much greater than is generally imagined. In former times the castles of the *daimios*, scattered here and there throughout the country, were centres of distribution from which flowed in all directions small streams of wealth which brought employment, remuneration and content to the surrounding inhabitants. The wheel or shuttle of the manufacturer was busily employed in furnishing materials which were consumed in the little local court maintained by my lord and lady. The smith, the joiner, the mason, the carpenter, the tailor and sandal-maker, the silk-weaver or maker of brocades, and the many tradesmen of all occupations whose labour once found a market at the castle, or among the host of retainers quartered near it, now find but scanty occupation and poor recompense. The productions of many of them have been superseded by foreign goods; the excessive importation of which has been stimulated by this very currency which is itself the sign and measure of much human misery. The contraction of the currency will do something to revive the industry and restore the prosperity of these people, by discouraging excessive importations of foreign manufactures, and thus bringing back the gold with which the country has been compelled to part. We can be satisfied with no commercial relations between this country and ourselves which do not bring to it as great a measure of advantage as it yields us. Do not let us flatter ourselves that the Japanese are collectively the happier for our presence here, or that we are absolved from the duty of pointing out remedies for the distresses it has produced. Granting that the time had come when foreign intercourse could no longer be avoided; granting that the isolation which preceded it conduced to a false and wholly artificial civilization, the inherent weakness of which was proved by its fall when brought into contact with our own; granting, too, that the country, if wisely and economically governed during the next ten years, will be restored to its former content, besides being endowed with a thousand new blessings, for which, in its old condition, it could never have hoped;—granting these things, we say, it is still certain that its future will be

Distress great.

Labour channels diverted.

Foreign intercourse intimately connected with the state of things.

more or less prosperous, and its vitality, power and accumulated wealth increased or diminished, as its commercial legislation is based upon more or less sound economical principles.

Uncertain
demand for
specie for
exchange.

Active currency.

The second kind of drain from the Treasury which we might have to face, and most certainly to fear, is that arising from the presentation of an uncertain proportion of the paper for exchange into specie. Now, the paper currency of a country is of two kinds, active and passive. The active portion is that which is demanded for the ordinary every-day operations of its commerce and trade. The passive part is that which is retained by individuals for reasons either of frugality, parsimony, apprehension of the future, or the love of hoarding for its own sake. There is abundant reason, however, for believing that the active portion of the currency here bears a very large ratio to the passive portion. For some years we have seen the currency floating at, or about par; and we have lately seen it rise to an extraordinary premium—not, indeed, perhaps, over the whole country, but certainly over the most commercially active portion of it. To suppose or fear that there is danger of any serious quantity of the paper demanded by the business of the country being brought to the Treasury to be exchanged for specie, is to believe that men will put themselves to serious trouble and expense for no advantage and to no purpose whatever. It is not in human nature to do this here or elsewhere; and we may rely that if there is a return to specie payments, the time fixed for which permits of that gradual strengthening of the confidence of the people in the promise and solvency of the Government which the interval would naturally produce, the quantity of paper so brought to the Treasury, or Branch National Bank, or whatever the centre of distribution may be, will be extremely small.

Passive
currency.

In regard to the passive portion, we ought to be prepared for its being considerable, as all ignorant and frugal people are incurable hoarders. Yet, while so prepared, we need not greatly fear a heavy drain on this account, for the reason that, as stated in one of our previous articles, gold, silver, and paper float currently to our certain knowledge, at precisely equal values in one of the great provinces and may fairly be presumed to do so elsewhere. Why should men who can now get gold or silver for their hoarded notes, by merely present-

ing them over an exchange counter, and yet who do not do so, form an altogether new resolution on the subject when the danger of disappointment, far from being increased, is greatly diminished? There can be little reason to fear that they will do this.

There is still one point which must be forcibly im-pressed on the Japanese Government in case it under-takes, after ample deliberation, the change we advocate.

In our third article on this subject, we stated, among the necessary conditions of the measure, that the future unit of currency "should be produced in quantities large enough for the purposes of the foreign trade." But we want more than this.

There should be as little delay as the nature of circumstances admits, in the conversion into this currency of all bar silver or Mexican dollars imported for that purpose.

And here the example of the American Government in regarded to the Trade Dollars, may well be followed. The Government made such arrangements that any applicant for a quantity of this coin is supplied with it, out of a large stock kept for the purpose, directly his own bar silver is assayed and valued. He has not to wait until the silver he tenders is converted into the coin he requires, but the coin is handed to him the moment the Mint is satisfied that he has given the equivalent of what he demands. There are no practical difficulties in such a course, and it is certain that, unless adopted by the Japanese Government, abundant discontent would arise out of the relations between the Mint and the public.

There is still one reason worth a few words, and worth a great deal more thought, why the Finance Minister should never be satisfied until he has carried the great point we have urged on the Government, i.e. a return to specie payments.

So long as we have an inconvertible currency, the reserve of bullion in the Treasury affords a perpetual temptation to other Ministers who are the Heads of Departments, to draw upon it for the service of their branches of the administration. The Minister of War, of the Navy, or Public Works, or Public Instruction knows there is a large sum of money lying practically idle, and thinks it very hard that a slice of it cannot be spared for some very desirable improvements in his own department. The Minister of Marine refuses to accept all his responsibilities unless a couple of iron-clads are added to the Navy, the War Minister

A unit of currency essential.

Immediate conversion of bullion into coin.

Bullion reserve conduces to extra-expenditure.

cannot do without several batteries of Krupp guns, the Public Works without some costly building out of all relation to the actual needs of the occasion, and so on. The Finance Minister may be ever so stern, but he cannot always withstand these applications, which will be made so long as there is a fund presumably disposable for such purposes. All this temptation should be taken away, and if any Department wants money, it should be given from the revenue, or refused because the revenue will not permit of the appropriation.

Over-sanguine estimates of effect of return to specie payments.

Finally, we think it well to warn all sanguine currency reformers, or those who, agreeing with us, hope that everything will come right if this one great reform is only carried, that it is foolish and idle to hope more from it than it legitimately promises to yield. You cannot make a man rich by merely showing him how to manage his money; you cannot increase the wealth of a state by simply adjusting its paper and metallic issues. The change to a convertible currency in Japan will not bring to every young lady's feet a handsome young nobleman with a large estate. It will not cover the country at once with roads and railways. It will not increase the revenue or diminish the expenditure—at all events by direct means. It will work no miracles, and human life will present much the same aspect as it now presents. But it will give greater certainty to the transactions of every-day life; it will impart a new confidence to men in making contracts extending over lengthened periods of time; it will incite to new enterprise, and vivify declining enterprise; it will act to the home and foreign trade as governor and fly-wheel do to the steam-engine, regulating the amount of force at work and the application of that force.

Objections to these articles considered.

We now pass on to consider the objections to our proposals made by a writer in the *Hiogo News*, who, though, as we think and hope to show, quite in the wrong, has still approached a serious subject seriously, and need not be greatly reproached for a little harmless dogmatism. But before he says that such and such an asserted fact exists only in *our* imagination, that this is "a fallacy" and that "is wrong," he should certainly have taken greater pains to master the question at issue, and been more sure he had eliminated from his own conception of it, certain serious errors into which he has fallen. But we shall not affect to have been dis-

turbed by all this. There are only two questions worth discussing; viz., is our currency in a sound or an unsound state, and are the measures we have advocated for its reform such as would approve themselves to sound economists?

The writer of the article, then, appears to have wholly missed the broad general position advanced by ourselves in regard to the Mexican dollar. The position is this: that the employment of a coin for the purposes of trade, which is wanting in the very first characteristic of a good currency, namely, the capacity of circulating, is necessarily fraught with injury to trade. It was pointed out that the large quantity of silk sold to foreigners, had placed in the hands of the Japanese a large quantity of Mexican dollars; that the circumstances of trade obviously required that the currency of the country should expand, but that in consequence of the non-circulation of the Mexican dollar, it could not expand. In virtue of the course of trade, a large mass of coin had come into the hands of the Japanese, but, *in place of passing freely into circulation and augmenting the volume of the currency as a good currency would have done, they hung in suspension within the area of a square mile or something like it.* It was further argued that the holders of this coin, which is thus useless for the purposes of internal trade, having to procure a currency possessing the property of circulating, had to sell their dollars to obtain that currency, and that the large mass of dollars thus brought forward for exchange, had raised the price of paper *yen* far above its normal or average value as measured in Mexican dollars, and that this rise in price was a loss to the producer—a position which is still maintained.

It must be admitted that the writer not only appears to have failed in apprehending this simple position, but has raised other questions which tend to becloud the subject. Thus, as we understand him, he alludes to the rise in the value of the Mexican dollar as measured by the *rate of exchange in London*, and proceeds to argue that if there had been a silver *yen* currency it would have risen in the same way. No doubt it would, although not to the same extent, but the *fall* in the value of the Mexican dollar as measured in paper *yen* is the main point to which attention is to be directed. It

Position
occupied by the
Mexican dollar.

Misapprehen-
sion of the
position.

is not necessary to clog this part of the subject by any reference to the foreign exchanges.

There is some obscurity and want of logical coherence in the article. Thus, after pointing out that gold coin has left the country and assigning certain reasons for it, which are partly right and partly wrong, the writer goes on to say that as the gold coin has gone away, we have now a currency of paper *yen* and Mexican dollars and "nothing else," and then adds:—

Appreciation
of gold coin.

"Under these circumstances the enormous recent demand for silk has brought out the peculiarities of the position with startling vividness." But if the gold had *not* gone away, the peculiarities of the position would have been brought out with equal vividness. For the same quantity of silk would have been sold, the same quantity of Mexican dollars would therefore have been brought into the market to be exchanged for the circulating gold coin, and the pressure of the large mass of *non-circulating* coin seeking exchange would have caused an appreciation in value of the *circulating* gold coin.

Premium on
paper identical
with apprecia-
tion of gold.

The writer specially dissents from our view that the premium on paper represents a loss to the producer. He argues that the premium paid for paper represents the recent appreciation of gold over silver, for paper *yen* are, he says, "practically gold." But it is quite certain that paper *yen* are not "practically gold." They are not convertible into gold, nor have they even any fixed value as measured in gold. Let us suppose that there is a heavy demand for imports. The Japanese dealers who wish to buy have to procure Mexican dollars to pay for them. How do they get these dollars? By giving paper money to the silk and tea merchant in exchange for them. But what happens when the dollars are exhausted? Then the dealer begins to buy *gold* with his paper, for the foreign banker will buy the gold against dollars. Now when paper money is thus *seeking* gold, the number of *gold yen* to be obtained for 100 paper *yen*, *tends to become less and less as the demand increases*, that is, paper goes more and more to a discount as compared with gold. Are paper *yen* practically gold at such a time? Surely, not. And they are never, "practically *gold yen*." The error into which the writer has fallen is that of forgetting that the paper *yen* is a circulating medium continually varying in value, whether measured in gold *yen*, silver *yen*, or Mexican dollars. It has no

Unsoundness of
this theory.

fixed relation to any one of these coins. Its continual fluctuations in value are inseparable from its character of being inconvertible and is a strong reason for a return to convertibility. But while this is clearly true, it is also true that it has a tendency towards a certain normal value, as measured in Mexican dollars, and this is caused partly by the fact that the volume of the paper money is fixed, and partly by the fact that the amounts of paper money and Mexican dollars seeking to be exchanged for each other are not generally so much out of proportion as they have recently been. This normal or average point is about 400, or 100 paper *yen* for 100 dollars. Sometimes the price is a little lower, sometimes a little higher, but, speaking generally, this is the normal or average price. There can be no doubt, then, that the recent heavy rise in the value of paper *yen*, as measured in Mexican dollars, represented a loss real to the producer. In June last, for every 100 dollars worth of silk the producer could get 100 paper *yen*. Two or three months later he could get 98.25 only. And it does not settle the question to say that 98.25 would buy back \$100 again. The question he asks himself is this. Will the 98.25 paper *yen* which I take with me into the country, buy as much labour and goods as the 100 *yen* did three or five months ago? And the answer is clear: it will not.

Consequence of appreciation of paper.

Under the present system periods will always be occurring when the native medium of circulation will be raised unduly in value relatively to Mexican dollars, no matter what that medium may be. What is wanted is a currency that will circulate among foreigners and natives alike, and that, under such circumstances as have lately occurred, will pass out of *Yokohama* and augment the currency in accordance with the demand of trade. True money is a *generalised* purchasing power; Mexican dollars are a *particularised* purchasing power, and the basis on which foreign trade is conducted will be considerably enlarged and strengthened on the day when the Japanese silver *yen* becomes the recognised medium of payment.

A circulating coin wanted.

October 21, 1876.

Part of the article on the Currency which appeared in our last issue, consisted of a reply to certain objections urged by a writer in the *Hiogo News*, to our statement

Further consideration of opposing opinions.

of the cause of the recent striking rise in the value of paper money. In its issue of the 14th instant there is a second article upon the same subject, putting forth an opinion which had been already expressed in its former article. It is entirely at variance with our own, and we shall do the writer the fullest justice by presenting it to our readers in his own words.

Double standard
of value.

'We asserted on the other hand, our belief, that as the Japanese paper represented, in consequence of the double standard, gold *yen* just as much as it did silver *yen*, the premium on paper against Mexicans really represented the premium on gold. We suspected that the *Mail* did not see to what a great—to almost an entire—extent the double standard was at the bottom of the mischief,'

and further on in the same article,—

'It, (i.e. the "*Japan Mail*") will probably see in a while that the double standard is at the bottom of the mischief.'

If, in using the word "mischief," the writer wishes us to infer that he regards the rise in value of Japanese paper money as an evil, he must allow us to say that his utterances on this subject are wanting in clearness, not to say consistency. In his first article,—and indeed in the very passage we have just quoted—he contends that the premium on paper was really the premium on gold *yen* or Mexican dollars, the paper money being, in his opinion, "practically gold." The conclusion which (as we understand his first article) he deduces from this is, that a producer who got 93.25 paper *yen* only for 100 Mexican dollars, had nothing to complain of; in other words, no "mischief or loss" had happened to him. Yet we find him now saying that the double standard is at the bottom of the "mischief."

Erroneous
nature of
this assertion.

The dominant idea in the writer's mind that the "double standard" is the cause of the rise in the value of paper money, is wholly erroneous.

If by "double standard" he means to imply that there are two metallic units of value in this country, either of which a creditor may, at his option, pay to his debtor, there is not the shadow of a foundation for such an opinion. In that sense—and it is the proper sense of the term—there is no double standard in this country. The metallic legal tender is the gold *yen*; the silver *yen* and its sub-multiples, are legal tender to the extent of 10 *yen* only. This arrangement leaves silver *yen* in

masses to find their market level. And it is more probable that the expression is only a loose way of saying that there exists a gold coin called a *yen*, and a silver coin called a *yen*, and if this is so, we have no hesitation in saying that we agree with him as to the fact, while we wholly dissent from the inferences which he draws from it in regard to the late rise in the value of paper money.

Cleared from inaccuracies of expression, we think Opponent's real position will be correctly defined in the following sentence.

'The existence of two coins made of gold and silver Bi-metallism. respectively, but called "one *yen*," is at the bottom of the rise in the value of paper money; if one only of these coins had existed, the rise would not have taken place.'

Let us suppose then that no silver coin called a *yen* If gold and paper had existed, but that the currency had consisted solely only, of gold *yen* and of paper money, purporting indeed to be *yen*, but not convertible into gold, and varying from day to day in its relations with gold, sometimes approaching to a parity of value, occasionally touching that parity, but more often 4, 5 or 6 per cent below it. And let us further suppose that a large quantity of Mexican dollars had been received in payment for silk at a moment when paper *yen* was 5 per cent below gold. Under such a combination of circumstances a demand would set in for Japanese currency. But for which form of currency, Demand would be for paper. paper or gold? For paper, and for these reasons:

1. Because paper *yen*, while a legal tender like gold, are yet cheaper than gold.
2. Because paper *yen* are more easily transported, and circulate with at least as much facility.

It is quite evident, that the demand would be for paper and that paper would, as a necessary result, rise in value and tend to approach par as compared with gold. The efficient cause of the rise in this case would be the demand for paper *yen*. Precisely the same thing would occur if the currency consisted solely of silver *yen* and inconvertible paper of lower value than the coin. The efficient cause of the rise in paper money, then, being invariable when either gold or silver is present, we hold that it is the same cause that operates when both are present, namely, excessive demand. That certain evils do attend the existence of a gold coin and a silver coin each named a *yen*, we have no doubt, but we must

not now widen the area of the discussion by considering these evils; suffice it to say that the writer in the *Hiogo News* has not shown that the recent rise in paper money is one of them.

Quantity of
currency liable
to vary in all
countries.

Japan appears
an exception.

Causes thereof.

Remedy.

In all countries periods occur when more currency is required than at others. In England, for example, at harvest time, an expansion of circulation almost invariably takes place. There is then a sudden increase of transferable commodities, and more instruments are required to effect the transfers. When the activity of business passes over, the currency again contracts. The whole operation occurs with as much ease as the dilations and contractions of the pupil of the eye. The currency of this country, as at present constituted, is wanting in this expansile and contractile power. At a time when large quantities of silk are sold, the money paid for it is, if we may so speak, projected in the direction where it is wanted. But it never fulfils its errand. Before it has gone a mile its circulatory power ceases; it cannot mingle with the ordinary currency, which therefore remains fixed in quantity at the time when its quantity should be increased. It ought at such a time to be expansile, but it is not expansile; it is of cast-iron. The same number of instruments exist, but with more work to do. And consequently the work is not so well done. The instruments of exchange are drawn away, by the temptation of a premium over Mexican dollars, from places where they are wanted to other places where they are more urgently wanted, and which are therefore willing to submit to a loss in exchanging the non-circulating coin. It is true that expansive power can be imparted to the currency at such a time by the intervention of the Government, which can draw off the superabundant dollars and substitute the scarce paper, but such an intervention is necessarily clumsy and irregular. Or again, when the Mexican dollar falls to a certain point, relief may be obtained by turning them into silver *yen*, but this operation will not be entered into until the evil becomes extreme, that is, until the dollar has fallen to a discount which will cover the seigniorage and interest, and will yield a profit besides. Both these methods of procuring expansion are uncertain and jerky. Easy, natural, and rapid expansion can only be procured by the adoption of a single circulating medium.

The errors of the *Hiogo News* arise from two sources.

1st.—The assumption that paper *yen* are “practically gold,” “as good as gold,” “represent gold,” when facts show that it continually varies in value with reference to gold. Real errors.

2nd.—The assumption that the “double standard is at the bottom of the mischief.”

On neither of these points has he produced any proof. Issue and

With regard to the operation of the Government in supplying the market with paper money against dollars, we cannot look upon it with the *Hiogo News* as a voluntary depreciation of its own paper. There does not exist in Japan any large store of paper money from which supplies can be obtained in exchange for coin. If there had been,—one such large store, or many small ones—they would have furnished the required extra quantity of paper, taking Mexican dollars in exchange, and the Government would have remained passive. But, there being no such store, or stores, the Government came forward to relieve the pressure. Depreciation of the paper money would ensue if the increased quantity were to remain in circulation, but it will of course be withdrawn as the price of paper falls. The paper currency will thus gradually shrink to its old volume, and the question of its ultimate redemption will remain precisely where it was. withdrawals.
The question
of ultimate re-
demption left
where it was.

April 21, 1877.

Towards the close of the last chapter of the Autobiography of Mr. John Stuart Mill, there is a passage which shows that the science of Political Economy, in as far as it deals with questions of currency at least, has not yet, even in England, wholly emerged from the militant stage. J. S. Mill on cur-
rency schemes.

“In common I suppose with all who are known as political economists, I was a recipient of all the shallow theories and absurd proposals by which people are perpetually endeavouring to show the way to universal wealth and happiness by some artful reorganisation of the currency.”

We shall run but small risk of error in assuming, that a very large proportion of these schemes proposed to deal with that particular form of currency which has, from time immemorial, in all civilised countries, and in

Instances.

some which are but partially civilised, at one period or another, dazzled and blinded the mind of man. Few delusions have "survived" with such inveterate persistence; it would be hard to name one that has been fraught with more pernicious effects to society than the delusion that "universal wealth and happiness" are to be secured by issues of inconvertible paper money. In modern times, it is perhaps rare to hear the doctrine pushed to this extreme: nevertheless it lurks in many a mind in some more or less modified form, "Great Governments seize with avidity upon this form of currency * * * and justify their practice by the help of every kind of arbitrary and unscientific assertion." Russia, Austria, Italy, Turkey, and Spain, are all suffering from the formidable disorder of inconvertible paper money.

United States.

"The fretting plague is in the public purse." In the other hemisphere there is the case of the United States. In the opinion of Professor Summer, nothing but the buoyant and youthful vigour of the Great Republic has enabled it to bear up under the successive issues of inconvertible paper money with which it has been loaded, from the "continental" bills of 1775, down to the "blood stained greenback" of our own day.

Absence of any guaranty against increased issues in Japan.

In the presence of facts like these, our readers, whether foreigners or Japanese, will hardly accuse us of exaggeration, when we say that the present position of the paper money of this country is a position of peril. For it has never yet, to our knowledge, been authoritatively declared by any competent official, or body of officials—such for example as the Minister of Finance or the Privy Council—that the existing volume of inconvertible paper money will not be increased in any form, nor although more than one budget has been published, setting forth a favourable condition of the national finances, has any declaration, so far as we are aware, been made by the Minister of Finance as to the footing upon which the existing issues are ultimately to stand. The outcome of a situation in which there is no policy, is likely enough, before long, to be bad policy, and we can assure all who have interests at stake in the commerce of Japan, that the future action of the Government in reference to this question will not be, by any means, a matter of indifference to them.

In our former articles on this subject, we have contended that the time has arrived for dealing with the whole system of the currency of this country in a broad and comprehensive manner. And it will be remembered that the leading propositions which we have maintained as embodying the proper basis of reform are these, viz. :—

1st. The Government should abandon the gold standard and should adopt in its stead the silver standard. Bases of reform.
Silver standard.

2nd. That the Government should procure the introduction of their coin as legal tender at the open ports, and as a necessary preliminary to this, that the management of the Mint should be placed upon a footing calculated to give confidence to foreigners in respect both to its ability to do all the work that may be required of it and to do that work well. Japanese coin to
be legal tender.

3rd. That the Government should determine upon and enunciate a definite policy in regard to placing the paper money issues upon a secure, an economical, and convertible basis. Definite policy
respecting
paper.

These reforms will, in our opinion, impart to the currency that elasticity in which it is now deficient; they will place the transactions of commerce and of every-day life upon an assured basis; and they will effectually carry home to the minds of foreigners the conviction that the Government has set its face stedfastly in the direction of financial and economical reform.

Our purpose, however, in this article is to deal exclusively with the question of the paper money. We have said that the situation is a situation of peril, and in attempting to estimate its dangers it must be remembered that among foreign nations there are many bad examples and few good ones; that the internal trade of the country has since the revolution been passing through a long and painful ordeal; that there has been an all but entire collapse of the credit that formerly existed—that all, or nearly all the banks and financial institutions, whether of old or of modern date, have failed; that the landed tax has now to be paid in money instead of in kind, necessitating as a consequence, either a large supply of circulating medium or an increased rapidity of circulation; and finally, that there is undoubtedly a widely diffused feeling of discontent fermenting in the country. These are circumstances Perils of the
existing
situation.

pre-eminently favourable to the growth of unsound economical ideas: they are circumstances most likely to predispose the suffering body politic to have recourse to financial nostrums.

No safety until
paper is made
convertible.

Such being the present aspect of the question, it seems desirable, if only for the sake of our Japanese readers, to insist once more upon this—that under any other system of paper money than one which provides that the notes shall at all times and immediately be convertible into coin, there can be no safety,—and also to point out that the circumstances of the country are most favourable for effecting a retreat from the quicksands of inconvertibility to the solid ground of specie payments.

Steadiness of
value an
essential
to currency.

It is obvious that steadiness of value is of first-rate importance in any circulating medium, and it is equally clear that any sudden increase or decrease in the quantity of that medium must necessarily cause fluctuations in its value. The quantity of money circulating in any country at any given time, bears, as a matter of course, a certain exchangeable relation to the existing commodities of that country, and any increase or decrease in that quantity must of necessity alter that relation—in other words, a general rise or fall of prices must ensue. We have an apposite illustration of this in the present position of the metallic circulation of this port and of the other treaty ports of China and Japan. The discovery of new and rich silver mines in the United States, and the demonetization of silver in Germany, caused an increased quantity of silver to be thrown upon the market, and as a consequence, silver, both in its crude and manufactured forms, suffered a diminution in exchange value, just as any other commodity declines in exchange value when there is an increase of supply but no corresponding increase of demand. All of us know this, and most of us know it to our cost. And what has just occurred with regard to silver may occur at any time with regard to gold. Or, as is perhaps more probable, the converse may occur—the exchange value of gold may become appreciated. In point of fact it is the opinion of some competent judges—notably of the Government of India—that a rise in the exchange value of gold has already set in. Now these fluctuations in the exchange value of the precious metals are not advantageous. In the words of Mr. Mill, “all variations

Probable
appreciation
of gold.

in the value of the circulating medium are mischievous; they disturb existing contracts and expectations, and the liability to such changes renders every pecuniary engagement of long date entirely precarious." But evil as these variations in the exchange value of gold and silver unquestionably are, it is impossible to get rid of them, and as we have now the experience of many hundred years that they vary less than does any other commodity, we may be content to bear the inconveniences with which, from time to time, the use of them is attended.

But that any community should be called upon to bear the enormous evils and inconveniences which necessarily flow from additions made to the circulating medium in the shape of inconvertible paper money, by whomsoever issued and on whatsoever plea, is a proposition that will only be advanced by the ignorant and the fraudulent. That any body of men should have the power of opening, so to speak, a storehouse, from which they, at their pleasure or caprice, can pour forth money, freed from the ordinary conditions under which money, like other commodities, is usually produced; that they should either invest themselves, or be invested by others, with the power of (so to speak), *creating* money, is, as Mr. Mill, says, "an intolerable evil." Under such a system the degree of depression that may take place in the exchange value of the notes issued depends entirely upon the moderation with which those who have the right of issue may exercise their most dangerous power. So long as a paper currency is at all times and immediately convertible into coin at the pleasure of the holders, the variations in its value can only move within those limits which bound the variations in value of the coin itself, but there is no necessary limit in the direction of depreciation to the variations in value of paper money not convertible into coin.

It is nevertheless true that this simple, and it would seem self-evident proposition, has by no means received universal assent in the past, and we are sorry to add that it does not receive it even now. At various periods there have been other theories of paper money afloat, and as some of these are not without supporters in our own day, we think it may not be uninteresting to glance at one or two of the more plausible.

Inconvertible
paper money an
intolerable evil.

Convertible and
inconvertible
paper.

Different
opinions
regarding
paper money.

Credit of the
issuer.

Perhaps the most common is that which maintains that the value of inconvertible paper money depends mainly upon the credit of the issue, but a more specious, and consequently a more dangerous theory maintains that paper money cannot be issued in excess so long as the issuer retains in his possession some article of equal value to that expressed on the face of his promise to pay, such as land, Government securities, or bills of exchange. Both of these theories lose sight of the cardinal fact that the augmentation of the currency (commodities remaining unaugmented), lowers its value. But both have found at various periods and in diverse countries advocates of no mean ability.

Government
issues, and
their fate.

Benjamin Franklin was one out of many distinguished men who supported the issue by the Government of the United States of the inconvertible bills of 1775 "on the faith of the Continent." To him, as to many others, it seemed impossible that the credit of the Government of the United States could fail to sustain the value of its paper promises. He did not perceive that if the *instruments of exchange* are multiplied, while the *objects of exchange* are not multiplied in the same ratio it is impossible for any power, or any degree of credit, no matter how high, to preserve the original exchangeable relation between the two. And the "faith of the Continent," we need hardly say, did fail to sustain the value of its inconvertible notes. The sequel is most instructive. When depreciation set in, as it very speedily did, the persons who refused to accept the notes at the same rate as coin began to be regarded as traitors to their country. At length Congress solemnly decreed that "whoever made a difference between gold and silver and continental bills should be deemed as enemies to the liberties of the United States." Nor was this all. For five successive years legislative measures of the most stringent character were taken to arrest depreciation, even military force was resorted to, but in vain.—In 1870 the bills were worth in coin 2 cents per dollar, and at last it was not rare to see them used in practical jokes. "A barber's shop in Philadelphia was papered with them, and a dog, coated with tar and the bills stuck all over him, was paraded in the streets." The effects of this most disastrous measure were thus summed up by Webster. "It has polluted the equity of our laws, turned them into engines of oppression and

wrong; corrupted the justice of our public administration; destroyed the fortunes of thousands of those who had the most confidence in it; enervated the trade, husbandry and manufactures of our country; and gone far to destroy the morality of our people."

The other theory was tried on a large scale in France Law's scheme. under the régime of the Regent d'Orleans about the year 1720. The projector of the scheme was John Law, and it is well known to this day as Law's Mississippi scheme. It ended by the expulsion of Law from France, the enormous depreciation of the notes, and a sarcastic couplet scrawled on the Regent's door having reference to some promise made by him,

"Tu promets beaucoup ô Regent,
Est ce en papier ou en argent?"

Notwithstanding the disastrous result of this experiment, the theory was again tried in France. During the French revolution, notes called "Assignats" were issued upon the security of land. The result was the same. The notes fell at last to nearly a 30,000th part of their nominal value. Then it was tried in England. From 1797 to 1819 the Bank of England was restricted by Act of Parliament from paying its notes in specie. In this interval the Bank issued inconvertible notes in discount of *good bills only*, but depreciation set in nevertheless, and continued until the resumption of specie payment. Assignats.

These, and other cases that might easily be adduced, show in the most conclusive manner that neither high credit nor good security will avail to maintain the value of inconvertible paper money when issued in excess. There is one test and only one by which we can tell if paper money is or is not depreciated. Does it conform in exchange-value to the coin which it professes to present? If it does not so conform, it is, as a matter of course, depreciated, and any addition made to its volume under such conditions must inevitably, no matter how good the security, or how high the credit of the issues, tend to further depreciation. Paper money, upon the other hand, which is convertible into coin can never be depreciated or issued in excess. Test of paper must be its conformity with specie.

Now the peculiar dangers of the existing situation are that the paper money of Japan, as it stands, does not rest upon a specie basis, so that any Danger of paper in Japan.

additions made to the quantity upon the present footing must necessarily have a tendency to depreciate the currency, and that, in consequence of the absence of any fixed principle of regulation, the door is left open for experiments in currency, a state of things which, as history shows, is only too likely, sooner or later, to prove an irresistible temptation. We are therefore most anxious to see Mr. Okuma (who is, we believe, earnestly bent upon financial reform), make an official recognition of the well known and most salutary economic principle, that the only secure foundation for a paper currency is that it be at all times and immediately convertible into coin at the pleasure of the holders, and enunciate a plan of action by which that most desirable end may, without delay, be secured.

Circumstances
are sufficient to
warrant the
conversion of
paper.

And we are of opinion that the circumstances of the country are such as to favour a policy of this nature. In the *first* place there is already in the Treasury much more than the mere nucleus of a metallic reserve. The quantity we believe to be about sixteen millions of *yen*, though it may probably have been somewhat lessened by the expenses incurred in the present war. This sum is lying there quite idle, and it is plain that this is a sheer waste of force.. At 12 per cent—the ordinary rate of interest—it would bring in a considerable revenue. It is clearly uneconomical to have such a sum in a dormant state; it is equally clear that there is much danger of its being ultimately dissipated if it is not applied to some definite purpose. And to no purpose can it be more fitly applied than to that of a reserve for the paper money. It is true the quantity may be insufficient. In that case there are two very obvious courses open. The first is to raise a loan to make good the deficiency, the second is to fund a certain portion of the notes. *Secondly*, It is evident that the quantity of paper money now afloat is not greatly redundant, for its exchange-value as compared with gold tends more and more to approach an equality—an incontrovertible evidence that the excess is moderate. Further, we have some reason for believing that the sum total of paper money afloat is considerably less than is generally supposed. *Thirdly*, The expanding trade of the country, and the change in the method of collecting the land tax necessarily cause a greater want of circulating medium. The exchangeable commodities

are constantly increasing, but the quantity of paper money remains the same, hence the value of the paper money tends to become appreciated, tends to approach to a parity with gold. Commerce, as the phrase is, "grows up" to the currency. Now these are circumstances most favourable to a return to specie payments. There is a considerable reserve fund on hand, the redundancy of the currency is slight, and the increasing wants of commerce are continually abating that redundancy.

But there is yet another argument for the return to specie payments. It will not be forgotten that when the Government originally issued paper money the notes contained a promise of redemption in thirteen years. These notes have now, for the most part, been called in and exchanged for what are termed the "Frankfort" notes, which bear no such promise. Nevertheless it is clear that it concerns the honour and dignity of the Government to keep that promise. The close of the thirteen years has not yet arrived, and there is ample time left for devising the details of a policy having for its object a return to specie payments.

"England," says Professor Summer "is the *only* country which after falling into the use of inconvertible depreciated paper has returned to specie payments *save through bankruptcy*." In two years more the United States will, we trust, have vindicated their honour. Why not Japan?

Redemption originally fixed in thirteen years. That promise should be kept.

Paper money ends in bankruptcy.

CHAPTER III.

Shortly after the compilation of this work had been commenced, H. E. Okuma, ex-finance minister, and member of the supreme council of state, issued a pamphlet of thirty pages entitled "A general view of financial policy during thirteen years (1868-80):" purporting to give, in the form of a summary, the receipts, expenditure, surplus, and reserve fund for that period. This document contains much matter of importance and it will be properly introduced here and followed by those comments upon it which have so far been published by the foreign journals.

A general view of Japanese finance.

A GENERAL VIEW OF FINANCIAL POLICY DURING THIRTEEN YEARS 1868-80.

Address to the
prime minister.

The Reports on the Estimates and on the Final Accounts as well as the Annual Reports of the Minister of Finance which have been from time to time presented supply sufficient detailed information with respect to the national finance to give a complete idea of what it has been during the thirteen years which have elapsed since the Restoration. Most of these Reports, however, deal only with a single financial year or some special measure, and the explanations they contain are confined within these particular limits, so that they do not present a connected account of what has preceded or followed. Any one therefore, who desires to understand the character of our financial policy since the Restoration must take the trouble of consulting all the Reports which have appeared during the whole of this period. Having been honoured at one time with the post of Minister of Finance, and since then presided over the direction of our financial policy as a member of the Cabinet, I have been induced to compile a short history of what has been done since the Restoration, adding at the same time some scattered observations on the principles upon which various measures were adopted, to which I have given the title of "General View of Financial Policy during Thirteen Years." This I now have the honour to lay before your Excellency, in the hope that it may be found of use in forming a clear idea of the measures carried out during that period.

November, 1880.

(Signed) OKUMA SHIGENOBU,
Councillor of State.

H. E. SANJO SANEYOSHI,
Prime Minister of State.

A GENERAL VIEW.

General view of
the finances.

The national finances are not only necessarily influenced by every reform initiated by the government, but also receive a shock from every calamity which befalls the country. They are in fact intimately affected by every thing which happens. It is of importance, therefore, in seeking to understand the character of our financial policy during the thirteen years which have elapsed since the Restoration, to look back upon

the reforms made in our institutions and the numerous misfortunes which have befallen us during that period. Amongst the former three most important reforms carried out by the government have been the abolition of the Shogunate and the establishment of the Sovereign's authority, secondly the abolition of the feudal system and the creation of a central administration, thirdly, the release of the hereditary military class from the functions hitherto attributed to it, and the conversion of their pensions into government bonds. By these reforms institutions which dated from six centuries back were removed, and in the space of little more than ten years a revolution was accomplished to which the history of no other country can furnish a parallel. On the other hand three grave misfortunes have befallen us during the last thirteen years, firstly the war of the Restoration against the *Daimiōs* of the East and North of the country, secondly, the Formosan expedition and the complications with China, thirdly the insurrection in Kiushiu. The influence of these reforms and misfortunes was not confined to the period which gave each of them birth, but extended over two or three subsequent years. In addition to them, if we reflect on the many smaller reforms and smaller troubles which have taken place, we shall perceive that no year has been without disturbing effect upon our finances.

In order to convey a clearer idea of the character of our financial policy during the last ten years, I will divide the subject into seven headings, namely Revenue and Expenditure, Paper currency, National debt, Taxation, Banks, Government Assets and the general condition of the country, dealing with them each in turn. If the facts set forth be carefully considered, the character of our financial policy during these ten years and more of disturbing influences will be rendered evident, and it will be seen that, in spite of the difficulties that have constantly beset us, no efforts have been spared to apply effective remedies.

I.—REVENUE AND EXPENDITURE.

The final accounts have been made up for the years beginning with 1868 down to the 9th financial year 1876. The accounts of receipts and disbursements have been closed for the financial years 1877 and 1878, and the final accounts of actual income and expenditure can be roughly determined, but as the date for the closing of the books for 1879 has not yet arrived, we cannot arrive at the totals, and we shall not take this year into our calculations for the moment. I proceed therefore to give a table showing the comparative Revenue and Expenditure for the period beginning with 1868 and ending in 1879.

Year.	Revenue.	Expenditure.	Surplus.	Deficit.
	Yen.			
1868	33,080,000	30,500,000	2,580,000	.....
1869	34,430,000	20,780,000	13,650,000	.....
1870	20,950,000	20,100,000	850,000	.....
1871	22,140,000	19,230,000	2,910,000	.....
1872	50,440,000	57,730,000	.....	7,290,000
1873	85,500,000	62,670,000	22,830,000	.....
1874	73,440,000	82,260,000	.....	8,820,000
1875	86,320,000	66,130,000	20,190,000	.....
1875-76	69,480,000	69,200,000	280,000	.....
1876-77	59,480,000	59,300,000	180,000	.....
1877-78	52,440,000	48,530,000	3,910,000	.....
1878-79	61,860,000	59,610,000	2,250,000	.....
Total.	649,560,000	596,040,000	69,630,000	16,110,000

Surplus.

Leaving a surplus of 53,520,000 for the $11\frac{1}{2}$ years.

The object of the present memorandum being merely to give the salient facts of our financial history, all figures below 10,000 yen have been omitted. They can be learnt by referring to the original Reports.

Years of deficit and excess.

It will be seen from the preceding table that during this period of $11\frac{1}{2}$ years there are only two years, namely, 1872 and 1874, which show a deficit, while during the other nine the Revenue constantly exhibits a surplus, so that at the end of the period there is a total surplus of 53,520,000 yen. This sum has been transferred to the Reserve, in accordance with the established regulations, to form a fund for the redemption of the National Debt.

Paper money and the surplus.

A reference to the Report on the Final Accounts for the period beginning with 1868 and ending with the first half of 1875 will show that during each of the first five years, namely from 1868 to 1872 an issue of paper currency took place. It must be remembered therefore that the surpluses shown in the foregoing table are due to the fact that the actual revenue during those five years being insufficient, paper currency was issued to meet the deficiency.

Formation of executive government and its cost.

During the years 1868 and 1869 the whole machinery of government had to be organized, while the war in the North and East was still raging. Although the year 1870 was on the whole quiet, the following year was marked by a great reform, the abolition of the *Han* and the division of the country into prefectures, and the business of the Executive enormously increased in consequence, the influence of which

was still felt in 1872. Thus the first five years were years of much difficulty and labour for the State, and there was little time for considering whether the revenue was sufficient to meet all requirements. In 1872 too, the issue of paper money was stopped, and no addition was made to the currency from that time until the insurrection of 1877.⁽¹⁾ For these reasons if we try to learn from the facts of Revenue and Expenditure whether the government has been wise or extravagant, we ought to look at the Revenue and Expenditure of the 6½ peaceful years which succeeded.

As appears from the foregoing table, five of the six and a half years which succeeded to 1873 showed a surplus of Revenue over Expenditure, and the year 1874 was the only one in which there was a deficit. The cause of this was not the ordinary business of government, but, as was explained in the Report on the Final Account for that year an extraordinary expenditure took place, consisting of the grant of 7,650,000 yen to person who had voluntarily surrendered their hereditary pensions, the payment of 1,500,000 yen on account of the Shimonoseki Indemnity and 3,180,000 yen the cost of the Saga insurrection and the Formosa expedition, together amounting to 12,330,000 yen.

Summarizing, then, the results of the finance of these 6½ years, we find that, deducting the 8,820,000 yen of extraordinary expenditure incurred in 1874, there is still a balance of 40,820,000 yen to the good, or an annual average surplus of 6,280,000 yen.

In the beginning of 1877 the land tax was lowered by Imperial decree to 2½ per cent upon the assessed value, yielding at the present assessment a sum of 41,060,000 yen so that by this abatement of taxation the revenue of the government was diminished to the extent of over 8,200,000 yen. Nevertheless the years 1877-78 and 1878-79 showed surpluses of 3,910,000 yen and 2,250,000 yen respectively. So that if that abatement had never been made, the average

(1) NOTE. Although an issue of paper money was made in connection with the insurrection in Kiushiu, the accounts of the suppression of the insurrection have been made up separately and the paper money issued at that occasion was not included in the income of 1877, and does not concern this table of Revenue and Expenditure. This is the reason, in discussing the foregoing table, for saying that no paper money was issued after the year 1872. If the Expenditure on the suppression of the rebellion had been included under Expenditure for that year, it would have become necessary to set down under the head of Revenue the paper money issued and the loans contracted. In that case the Revenue of the year in which this insurrection took place would show an additional surplus of 440,000 yen, but it has been thought better to adhere to the form of the Annual Budgets and Reports of Final Accounts, and to omit the cost of its suppression from both sides of the Account.

surplus of those two years would have been over 11,000,000 yen.

Economy in expenditure and increase in revenue.

The causes which enabled the Government Revenue, in spite of the repeated calls made upon it by the gradual extension of the administrative system, to show such elasticity during the 6½ years following 1873, were on the one hand the rigid economy practised by all departments of the administration in the performance of the services assigned to them, and on the other the annual growth of the yield of other taxes, in spite of the fact that no new ones of any importance were imposed and no addition made to those which already existed.⁽²⁾

Total surplus.

As shown already, the total surplus from 1868 down to the end of June of 1879 amounted to 53,520,000 yen, while the Reserve Fund at the beginning of the July 1879 stood at 50,900,000 yen. The surplus for the year 1876-77, amounting to 180,000 yen, 3,000,000 yen of that of 1877-78 and 1,380,000 yen of the Reserve, were appropriated to the fund for redeeming paper currency (the amount involved being deducted). The balance of the year 1877-78, amounting to 910,000 yen, and that of 1878-79 had not yet been added to the Reserve, and deducting these from the total surplus of the 11½ years, the Reserve at the beginning of 1879-80 ought to have stood at 45,800,000 yen. The reason of its being stated at 50,900,000 yen is that the capital appropriated for the industries carried on by various government departments, hitherto included in the year's expenditure, the temporary loans made to various companies, and the profit made on the Reserve Fund, were all placed to its credit.

II.—PAPER CURRENCY.

Paper currency: causes which led to its issue.

For some years after the Restoration, when the subjugation of the North and East, reforms in the system of government, foreign relations and the gradual organization of different branches of administration, demanded constant outlay, the government was unable to collect the whole of the taxes due from the former dominions of the Shōgunate, now under its own direct rule, and even had it been possible to obtain all the arrears, the whole would not have sufficed to meet even its ordinary expenditure alone. As the territorial nobility still continued to exercise the powers of government within their own districts, the Central Government was notable to obtain from them more than an annual contribution of about 700,000 yen for military purposes. There was moreover a deficiency of capital in the country, and as only a very short

(2) Note. The fact that no great addition was made to the schedule of taxes during these 6½ years is fully explained in the chapter on taxation.

time had elapsed since the Restoration it would have been impossible for the government, during the first five or six years of its existence, to raise sufficient by way of internal loans to defray its expenditure. Under these circumstances, it being unable either to increase the taxation or to contract a domestic loan, while it at the same time desired to meet both the ordinary and extraordinary charges to which it was put both by the existence of civil war and the necessity of organizing for the first time a whole administrative system, a resort to the issue of a paper currency became absolutely unavoidable. The following table shows the amount of paper money in circulation during each year from 1868 to 1880 inclusive, and the cause of its increase or decrease from time to time.

Year.	Total amount in Circulation	Amount not due to issues of the govt.	Amount issued by the govt.	Increase in amount issued by the govt.	Decrease in amount issued by the govt.	Increase and decrease.
	Yen					
1868	24,030,000	.....	24,030,000	.....	.....
1869	48,000,000	.....	48,000,000	23,970,000	.....
1870	53,350,000	.....	53,350,000	5,350,000	.....
1871	80,430,000	24,930,000	55,500,000	2,150,000	.....
1872	99,360,000	26,040,000	73,320,000	17,820,000	.....
1873	97,660,000	25,190,000	72,470,000	.....	850,000	
1874	95,940,000	24,240,000	71,700,000	.....	770,000	
June of 1875	94,800,000	23,720,000	71,080,000	.....	620,000	
" of 1876	94,050,000	23,130,000	70,920,000	.....	160,000	
" of 1877	94,050,000	23,130,000	70,920,000	.....	.....
" of 1878	120,920,000	23,000,000	97,920,000	27,000,000	.....
" of 1879	113,420,000	22,920,000	90,500,000	.....	7,420,000	
" of 1880	108,680,000	22,910,000	85,770,000	.....	4,730,000	

It will be observed, on considering the figures above given, Paper only that while there was a gradual increase in the amount issued by the government during the five years beginning with 1868, until at one time, it reached something over 73,000,000 yen there was a gradual annual decrease during the four succeeding years (1873-1876), and that though it suddenly rose in 1878 to over 97 millions, the years 1879 and 1880 show a decrease again. From this it can be seen that though the government under the pressure of unavoidable emergencies has for the moment issued fresh paper money, it has always applied itself, the emergency once passed, to reducing the amount again, and that it has never made an addition to the currency for the purpose of meeting its ordinary requirements.

I will now briefly recapitulate the chief necessities which caused the issue of paper money by the government. The largest issues during these 13 years took place on three

occasions namely, firstly in 1868 and 1869, secondly in 1872 and thirdly in 1877-1878. In 1868 when our institutions were being established amid the din of civil war the whole of the Revenue from ordinary sources amounted to no more than 3,660,000 yen and the government was driven to add to its income by borrowing from Native and foreign merchants. The loans thus obtained together with the monies handed over by the Shogunate, and fines or gifts from the *Daimios*, amounted barely to 5,380,000 yen, or a total from ordinary and extraordinary sources, of about 9,040,000 yen. On the other hand, its extraordinary Expenditure during this year reached the enormous figure of 25,000,000 yen, leaving a deficit of 15,900,000 yen.⁽³⁾ This was the cause which forced them to have recourse to the issue of paper money.

In early years
revenue very
inadequate.

In 1869 the civil war was still proceeding, and the ordinary revenue was only 4,660,000. By loans from native and foreign merchants, and the recovery of sums left in the treasury of the Shogunate, the whole revenue ordinary and extraordinary was brought up to 10,470,000 yen, while the total of ordinary and extraordinary expenditure was 20,780,000 yen showing a deficit of 10,310,000 yen. It was this that rendered necessary the further issue of paper money. The year 1872 was the year after the abolition of the *Han* and the redivision of the country into prefectures, and the administrative sphere was correspondingly extended, causing the ordinary and extraordinary expenditure to be increased to 57,730,000 yen in all. It was not found possible, however to collect all the revenues which had hitherto been enjoyed by the *Daimios*, and the income from ordinary and extraordinary sources did not exceed 32,610,000 yen, leaving a deficit of 25,200,000 yen, partly met by an issue of paper money to the amount of 17,820,000, which still left a deficit of 7,280,000 yen. In 1877-78 when the rebellion in *Kiushiu* took place, the ordinary revenue was of course insufficient to defray the extraordinary expenditure. The revenue of that year was 52,440,000 yen and the ordinary expenditure 48,530,000 yen, giving a surplus of 3,910,000 yen, but the charges for the suppression of the rebellion reached the enormous figure of 41,560,000 yen, and thus a further issue of paper money became imperative.

Causes thereof.

In considering the history of the several issues necessitated by the causes stated above, it must be remembered that the

(3) NOTE. The amount of this deficit was arrived at year after when the final accounts were made up, but does not represent the actual state of the exchequer at the time, which was actually far worse, and thus the ascertained deficit does not exactly correspond to the figures above given of the amount of paper money issued in that year.

largest amount first reached, namely 73,320,000 yen took place when the districts under the direct rule of the government were confined to what had been the territory of the Shogunate, the *Han* not yet having been abolished, and secondly, just after the abolition of the *Han*, before the government was able to collect the revenues previously paid to the *Daimios*. After the year 1873, when the government, having abolished the *Han* and subdivided the country into prefectures, had more or less perfected the administrative system, no paper money was issued, except during the rebellion year. The year 1872 is therefore the year of the first maximum, and 1877-78 that of the second maximum.

When the first paper money was issued, it was the intention of the government to redeem the whole within 13 years, but owing to the continuance of the war in the North and East during 1868 and to the inhabitants of the chief cities being unaccustomed to the use of paper money, as well as to other causes, it fell to an abnormal discount (as compared with gold and silver), being depreciated at one time as low as 55 per cent. The government was therefore forced to establish a fixed rate at which it would be accepted in payment of taxes concurrently with coin. In 1869 the government determined to take effectual measures for bringing it up to par, and in June of that year rescinded the decree making the paper currency redeemable in thirteen years, announcing that it should either be redeemed in coin by the end of 1862, [Probably a misprint for 1872—Ed. J. G.] or if that were not done, that interest at the rate of 6 per cent should be paid upon the whole amount in circulation. It further notified its intention to abandon the issue of a further large quantity of paper money which had been contemplated, and to destroy the machinery that had been erected for that purpose, and further that any one found offering a discount upon paper money should be fined. From this time the credit of the currency increased with the stability of the government, and no one hesitated to accept it. The 13 years during which it was to be in circulation having thus been diminished to five, its stability constantly improved, until in the year 1873, the five years' term having been passed, the government in fulfillment of its promises, and with the object of contracting the circulation, issued the "Bonds in Exchange for Kinsatsu," by which they undertook to pay 6 per cent interest on all amounts of paper currency which might be offered in exchange for these Bonds. But as the credit of the paper currency was daily improving, while there was a general need of capital for carrying on business, there was a very small demand for these Bonds. During the next four years, that is up to 1876, a constant decrease took place in

First intention with regard to redemption.

Measures adopted to prevent depreciation.

Bonds issued in exchange for kinsatsu.

Redemption of
entire debt in
28 years.

the amount of paper money in circulation, until the outbreak of the Satsuma rebellion in 1877 necessitated the additional issue of 27 millions of yen. In 1878 a scheme was adopted for the amortization of every species of public debt in 28 years, the redemption of the entire paper currency included.

Object of bonds.

The "Bonds in Exchange for Kinsatsu" bear interest at the rate of 6 per cent. per annum payable in gold, and they are to be redeemed within fifteen years at par, also in gold. The plan was intended to combine two advantages; firstly, when the rate of interest fell below 6 per cent in gold owing to an excess of paper money in circulation, the holders would be at liberty to exchange them for public bonds, while the government would be enabled to withdraw enough paper money to maintain the circulation at an amount suitable to the requirements of the country; and secondly whenever the paper currency fell below par, the holders would be able to obtain Bonds of which the interest was payable in specie. But owing to the fact that the rate of interest since the Restoration has averaged over 10 per cent, the first advantage sought for by the creation of these Bonds was not attained, and the number of applicants for them was so few, that the amount issued scarcely exceeded 2,200,000 yen. Of late years, owing to the depreciation which has taken place in the value of the paper currency, the number of applicants has increased, and Bonds have been issued to a further amount of somewhat over 2,700,000 yen.

The history of the issue of paper money since the Restoration, with the causes that led to it, has now been narrated. It now remains to inquire, by comparison with the expenditure of all kinds, whether this paper money issued during the last 13 years, and now forming a part of the liabilities of the government, is to be looked upon as having been employed to meet ordinary charges, or whether it has been applied to the payment of war expenses. This question will be fully discussed with the aid of the figures under the next heading, that of National Debt.

III.—NATIONAL DEBT.

National debt.

The first instance of the issue of Bonds by the government for the purpose of raising a loan was the Foreign Loan contracted in 1870, although it had borrowed money on temporary loan from both natives and foreigners as early as 1868. In that year it borrowed from its own subjects 3,830,000 yen, and from foreigners 890,000, making a total liability of 4,720,000 yen. In 1869 it borrowed from the Japanese people 810,000 yen and from foreigners 100,000 yen, a total of 910,000 yen, thus incurring in the course of those two years liabilities to the amount of 5,630,000 yen.

Early loans.

But all of these were repaid by the year 1871. In addition to this, the government repaid by the end of 1875 over 5,700,000 yen of foreign debt and 2,000,000 yen Domestic debt, amounting in all to 7,700,000 yen, liabilities incurred by the Shogunate and the Daimios. The amount of national debt repaid by the government between 1868 and 1875, and which is consequently excluded from the statement of the active liabilities of the country at the present date, is no less than somewhat over 13,300,000 yen.

The following table shows the variations in the total Gradual increase amount of the outstanding national liabilities from year to of debt. year (exclusive of the paper currency).

YEAR.	AMOUNT OF UNREDEEMED LIABILITIES.
Dec. 1870	4,880,000
" 1871	4,880,000
" 1872	4,880,000
" 1873	31,540,000
" 1874	37,410,000
June 1875	47,480,000
" 1876	54,870,000
" 1877	242,170,000
" 1878	254,320,000
" 1879	249,890,000
" 1880	249,360,000

The maximum was reached in 1878, since which year there has been a gradual decrease. The great increase during the years 1873 to 1876 is due to the new Foreign Loan, and to the recognition of the liabilities known as the "Old" and "New" Domestic Debt." The increase in 1877 is owing to the creation of the "Pension Bonds" and the loans contracted to meet the expenses connected with the suppression of the Satsuma rebellion, that of the year 1878 to the "Industrial Works Loan" and the issue of Bonds to former Shinto priests in place of their pensions.

The Amounts given in the foregoing table are obtained by adding together the public debts of all kinds, the designations, amount raised and objects of which are briefly stated as follows :

1. Old Domestic Debt, issued in 1873... 10,970,000 yen. Domestic debt.
2. New Domestic Debt, issued in 1873 ... 12,410,000 "

Total... 23,380,000 yen.

These were debts incurred by the *Daimios*, the responsibility of which was assumed by the government after the abolition of the *Han*, when the government undertook their liabilities as well as the administration of their territories.

Pension bonds.	3. Voluntarily Capitalized pension Bonds, issued from 1874 and after	16,560,000 yen.
	4. New foreign Loan 1873	11,710,000 „
	5. Capitalized Pension Bonds 1877	173,630,000 „
	6. Bonds issued to ex-shintô priests 1878	420,000 „
	Total... ..	202,320,000 yen.

These liabilities arose out of the commutation of the hereditary pensions formerly enjoyed by the nobles, the military class and Shintô priests. Had this reform not been effected, the annual expenditure must have continued to be forever burdened with a charge for pensions much larger than the interest which has to be paid on the foregoing descriptions of public debt. By it these perpetual hereditary pensions were converted into a public debt redeemable at a fixed period, and the interest does not constitute any addition to the annual charges for which the government is liable.

Bonds for currency.	7. Bonds in exchange for Kinsatsu from 1873	4,960,000 yen.
	As has been explained in the preceding chapter, these were issued for the purpose of contracting the paper currency.	
Loans for public works.	8. Old Foreign Loan issued in 1870	4,880,000 yen.
	9. Industrial Works Loan issued in 1878	12,500,000 „
	Total... ..	17,380,000 yen.

These loans were raised for domestic improvements, such as construction of railways, the improvement of harbours and roads, the dredging of rivers and other reproductive undertakings.

Satsuma rebellion loan.	10. Loan for the suppression of } contracted	15,000,000 yen.
	the Satsuma rebellion ... }	

Amongst the above enumerated descriptions of public liabilities some are debts incurred by the former *Daimiôs*, and others for which the government has become liable are the consequence of institutions bequeathed to it by past ages, and some again were contracted by the government itself in order to carry on the administration. The whole may be divided into two classes, the first being debts which it has inherited from the past, the second debts actually incurred by the present government, as follows:—

		Division of debt	
<i>Inherited from the past.</i>		<i>Incurred by present government.</i>	
	Yen.		Yen.
Old Domestic Debt ...	10,970,000	Bonds in exchange for	
New " " ...	12,410,000	Kinsatsu ...	4,960,000
Voluntarily Capitalized		Industrial Loan ...	12,500,000
Pension Bonds...	16,560,000	Old foreign Loan ...	4,880,000
Capitalized Pension		Loan for suppression	
Bonds ...	173,630,000	of rebellion ...	15,000,000
Bonds given to ex-			
Shintō Priests...	420,000		
New foreign Loan ...	11,710,000		
Total ...	225,700,000		37,340,000

These two classes of Bonds, A and B, 263,040,000 yen in Bonds divided all, represent the whole amount issued from time to time up into two classes to June 30th, 1880, the maximum amount held by the public at any time being 260,910,000 yen on the 30th June, 1878. The amount redeemed up to that date was 6,590,000 yen; subsequently a further issue of 2,130,000 yen took place and Bonds to the amount of 7,090,000 yen were redeemed.

Class A includes six descriptions. Class B four, and Class A. while the total of the former is 225,700,000 yen, that of the latter is but 37,340,000 yen, Class B bearing the proportion of about $16\frac{1}{2}$ per cent. to Class A. Class B, the amount of Class B. which was expended by the present government, divides itself into two categories, namely Liabilities incurred for improvements and those incurred in order to supply deficiencies in Revenue. Under the first category come the Industrial Works Loan of 12,500,000 yen and the Old Foreign Loan of 4,880,000 yen, while the second comprises the Loan made for the suppression of the Satsuma rebellion, 15,000,000 yen, and the Bonds given in exchange for kinsatsu, 4,960,000 yen. It appears therefore that the amount actually spent by the government is limited to these last two items, which come to but 19,960,000 yen out of a total of 263,040,000 yen of public debt, or about 7.6 per cent. of the whole. To resume these figures in a few words, it appears, then, that the debts inherited by the present government from their predecessors are 85.8 per cent of the whole, and the proportion actually incurred by themselves is but 14.2 per cent, of which 6.6 per cent has been devoted to reproductive improvements, the absolute irrecoverable expenditure being but 7.6 per cent.

Purpose of
paper money.

I have thus stated the causes of the contraction of all public liabilities and the manner in which the proceeds have been employed, with the exception of the paper currency. I will now proceed to discuss the nature of the purposes to which this paper currency, which also forms a part of the national liabilities has been put, and demonstrate that it may be regarded as having been issued solely to meet an extraordinary military expenditure.

Subject to
reduction by
reserve fund.

A certain portion of the whole amount still remaining in circulation can be cancelled by means of the Reserve Fund accumulated in the national treasury, and this quantity must first be deducted. Secondly, the paper currency now in circulation, which was issued in exchange for the paper of the *Han*, constitutes a *Han* debt inherited by the present government, and not an addition to the circulation for which it is itself responsible. This amount therefore must also be deducted.⁽⁴⁾ The balance remaining after these deductions have been made alone is to be considered as having been issued by the government, and on inquiry whether it exceeds the extraordinary war expenditure during these 13 years, we find the following results.

Amount of the reserve June 30th, 1880	...	51,320,000 yen.
<i>Han Satsu</i> for which the government became		
liable	...	19,460,000 „ ⁽⁵⁾

Amount actually
issued by
present
government.

The total of these two items, 70,780,000 yen, represents paper money not issued by the government, and when deducted from the amount in circulation June 30th, 1880, namely 108,680,000 yen, leaves the amount actually issued by the present government at 37,900,000 yen. The extraordinary war expenses incurred by the government from 1868 down to 1880 are as follows:

From 1868 to the first half of 1875	...	12,940,000 yen.
1877, Satsuma Rebellion	...	27,000,000 „ ⁽⁶⁾

(4) NOTE. The reserves kept by the *Han* to meet their paper currency were handed over to the present government and the amount of these reserves must of course be deducted, the balance being what the government has become responsible for.

(5) NOTE. 22,910,000 of *Han Satsu* in circulation, minus the reserve handed over to the government, amounting to 3,450,000 yen gives this remainder.

(6) NOTE. The expenditure for the Suppression of the *Satsuma* rebellion was something over 41,000,000 yen, but part was defrayed by means of a loan, which has been already accounted for in the Chapter on National Debt, and only that proportion of the expenditure which was defrayed by the issue of paper currency need here be stated. The war charges during those 13 years were by no means limited to the amount here given, but spread into many other branches of expenditure, and I have merely summed up what appears under that heading in the general expenditure of each year.

The total of the war expenditure is 39,940,000 yen, and War comparing this with the amount of paper currency after the expenditure. Reserve and the amount of *Daimios* paper money have been deducted, we find that the war expenditure exceeds the issue of paper money to the following extent:—

War expenditure 1868-1880	39,940,000 yen.
Paper currency in circulation which may be regarded as of purely govt. issue ...	37,900,000 „

Excess of war expenditure over issue of paper. 2,040,000 yen.

It may fairly be said therefore that the paper currency Issue of paper which forms part of the public liabilities, issued by the gov- not made at ernment during the last 13 years, has been applied to meet random. an extraordinary war expenditure, and has not been put forth at random to supply deficiencies in the revenue and to meet the normal expenditure.

The following table severally shows the increase and Table of debt. decrease of the Domestic and Foreign Debt:—

Year.	Domestic Debt. (exclusive paper currency.)	Foreign Debt.
Dec. 1870	.....	4,880,000 yen.
„ 1871	.....	4,880,000 „
„ 1872	.....	4,880,000 „
„ 1873	15,440,000 yen.	16,100,000 „
„ 1874	21,800,000 „	15,610,000 „
June 1875	33,000,000 „	14,480,000 „
„ 1876	40,710,000 „	14,150,000 „
„ 1877	228,770,000 „	13,390,000 „
„ 1878	241,690,000 „	12,620,000 „
„ 1879	238,070,000 „	11,820,000 „
„ 1880	238,350,000 „	11,010,000 „

It will be seen from the foregoing that the Domestic Maximum debt Debt reached its maximum in 1878, and has since shown a in 1878. tendency to decline, while the Foreign Debt attained its highest point in 1873, the year when the New Loan was contracted, and that it has decreased with every succeeding year. This is owing to the efficient measures taken by the government for preserving its credit by providing for the amortization of Debt. Deducting the Reserve maintained by the government for the purpose of redeeming the public liabilities and various loans made by it to private undertakings, we find that the total of the public liabilities, including the paper currency as well as the debt proper, has varied from year to year in the following manner.

Table of debt
minus reserve
and loans.

Year.	Total National Debt.	Reserve & Loans.	Debt Minus Reserve and Loans.
Dec. 1870...	58,230,000	.....	58,230,000
" 1871...	85,310,000	.....	85,310,000
" 1872...	104,240,000	26,280,000	77,960,000
" 1873...	129,200,000	32,730,000	96,470,000
" 1874...	133,350,000	28,910,000	104,440,000
June 1875...	142,280,000	37,540,000	104,740,000
" 1876...	148,920,000	37,720,000	111,200,000
" 1877...	363,220,000	47,090,000	316,130,000
" 1878...	375,250,000	58,360,000	315,890,000
" 1879...	363,320,000	58,390,000	304,930,000
" 1880...	358,040,000	58,630,000	299,410,000

This table shows that the maximum of public indebtedness was reached in 1877, and that during the three succeeding years of peace a decrease took place to the extent of 16,720,000 yen, and that since the scheme for the diminution of debt was adopted in 1878, with the intention of totally extinguishing it in 28 years, this plan has been strictly adhered to, while every effort has been made to practise economy in expenditure.

IV.—BANKS.

National Banks. When at the Restoration the policy of maintaining relations of amity and commerce with foreign powers was frankly adopted, and the public mind became re-assured, one of the first facts which struck those who gave their attention to the development of production and trade, was the deficiency of circulating capital, and it was found absolutely necessary, owing to a variety of circumstances which shall be briefly touched upon, to establish banks as a means of facilitating the circulation of money.

Deficiency of capital.

Effect of political reform. The effect of the political reforms made after the Restoration was not confined to the administrative systems, but their influence was generally felt throughout the social fabric and chiefly in commerce and manufactures. Under the old régime there had existed guilds which enjoyed a monopoly of trade, and these were at once abolished as being opposed to the principles of political economy. A spirit of free competition at once arose, and the old merchants and manufacturers suddenly lost their credit, so that for a time all dealings on credit came to an end, and purchases could only be made for ready money. An immense pressure upon the circulation of money was the result, and the want of capital became seriously felt. In consequence also of the abolition of the *Han* and subdivision of the country into prefectures, the *Samurai* ceased to hold their former offices, and the trade and

manufactures which had hitherto been prohibited by the institutions thus done away with, lost credit in consequence, which was an additional cause of the pressure thrown upon the circulating medium. The effects of these changes were felt in a lively manner from 1868 down to 1873.

Although under the old system money could be remitted Old system. from one place to another by the agency of the branch establishments maintained by the larger merchants of the old régime in different parts of the country, the convenience was limited to three or four of the principal cities, while at the same time most of the *Daimios* had appointed large merchants to be their agents, who transported the produce of the *Daimios'* territories to the chief commercial centres and disposed of them there. These men therefore were generally applied to by any one who had a remittance to make, and when the abolition of the *Han* in 1871 brought with it as a natural consequence the disappearance of these agents, this medium for making remittances was lost to the people. It became necessary therefore to establish banks which should undertake this business of making remittances. Necessity for banking system.

The government for these reasons encouraged the establishment of banks, and two or three companies which bore a certain resemblance to banks were actually started. But they were not formed upon a satisfactory system, and the consequence was the promulgation of the National Banks Law in 1872. In 1873 the First and Fifth National Banks commenced business, followed by the Second and Fourth in 1874. But during 1873 and 1874 some of the wealthiest merchants in Japan (such as Ono and Shimada) closed their doors, and a large number of smaller houses were dragged down by their fall. Distrust took hold of the public mind and commercial credit was injured. Owing to this and other causes the money market became very tight, and the government was eventually compelled in 1877 to establish a fixed legal rate of interest. Government encouragement. Financial crisis.

About this time (that is in 1876 and 1877) took place the commutation of the hereditary pensions of the military class into Public Debt Bonds. Now this class, beyond the functions which had appertained to it under the régime that had passed away, was ignorant of the ordinary means of gaining a livelihood, and now being suddenly released from those functions, was greatly in danger of falling into a state of indigence and perhaps into pauperism, unless some calling could be found for its members. The government consequently, with the object of finding a means by which the military class could turn their Public Debt Bonds to account in obtaining a livelihood, and moved also by the want of circulating capital in the country and the general tightness of money, adopted a plan calculated to confer a double benefit, the principle of Banks established for benefit of ex-military class.

which was the establishment of national banks by the military class, on the security of the Public Debt Bonds held by them. By this measure it was hoped that a way of gaining their livelihood would be thrown open to the military class, while the money market would be relieved.

Number of
banks arising
from mercantile
and military
enterprise.

Of the National Banks which originated in this manner those which date from before 1875 owe their existence to the enterprise of the ordinary mercantile class, while those which were founded in 1876 and afterwards were chiefly established by the military class. The following table exhibits the date of the establishment of the various banks, their number and capital.⁽⁷⁾

Year.	Number.	Capital.
Dec. 1873	2	3,000,000
" 1874	4	3,450,000
" 1875	4	3,450,000
" 1876	5	2,550,000
" 1877	28	23,156,100
" 1878	126	37,081,100
" 1879	153	40,796,100
" 1880	152	41,921,100

Effect on rates
of interest.

The origin of the establishment of the National Banks was as has first been explained, and now in order to show the effect which their establishment has had upon the rate of interest, I add a statement of the rates changed by the Mitsui firm, showing the rise and fall during the last few years.

Interest ruling
yearly from
1868 to 1879.

Date.	On loans of 10,000 yen and upwards.
1868	14 per cent.
1869	13½ "
1870	13.8 "
1871	14 "
1872	13½ "
1873	12.8 "
1874	12½ "
1875	12.3 "
1876	12 "
1877	11.3 "
1878	11½ "
1879	11.2 "

(7) NOTE.—All banks which obtained licenses to start are included irrespective of whether they have actually started or not.

It was the high rate of interest from 1868 to 1872 and 1873 that demanded the establishment of banks, and the lower rate since 1877 shows that their establishment has not been devoid of influence.

As I have stated in the previous chapter upon the paper currency, the total amount of paper currency issued by the government and in circulation in 1875 was 94,000,000 yen, and the capital of the banks then existing was about 3,000,000 yen, so that the government paper currency and the notes of the banks together amounted to about 96,000,000 yen. Under these circumstances the government's intention was to raise the banking capital to 40,000,000 yen, and to maintain the amount of paper-money in circulation at about 126,000,000 (the government paper money amounting to 94,000,000 yen and the issue of bank notes to 32,000,000).

But in 1877 a rebellion unfortunately broke out in *Kiushiu*, *Satsuma* and to meet the war expenditure necessitated, the government had to issue 27,000,000 yen of paper money. This raised the amount in circulation to a figure somewhat in excess of what had been contemplated when the national banks were established, but the government did not put a stop to the establishment of additional banks, resolving rather to contract its own circulation. This was effected by an alteration of the previous scheme for the reduction of debt, and paper money to the amount of 9,160,000 yen was withdrawn during the two years 1878 and 1879, it being calculated that in this way the whole additional issue of 27,000,000 yen made in 1877 would be withdrawn within six years.⁽³⁾

Not only has the establishment of banks provided every part of the country with facilities for making remittances, but it has imparted a great degree of energy to commercial transactions and profitable enterprises, while it has aided the military class in providing itself with the means of livelihood, as every one can perceive who is personally acquainted with the general condition of the country.

V.—TAXATION.

Previous to the Restoration each *Daimio* possessed independent administrative power in his own territories, and it naturally followed that the system of taxation, both as regards the trouble of collection and the relative severity of the burden on the tax-payer, differed widely in different parts of the country. Even in the territories of the Shôgunate the taxes levied under various designations were extremely numerous. For the first few years after the Restoration the government made no changes of importance in the system bequeathed to them by the Shôgunate and the *Daimiôs*, but of taxes.

(3) NOTE. For details, see Scheme for the Redemption of Debt.

Out of these 19 species of tax the land tax is the most important, bearing to the whole taxation of the country the following proportion; in the financial year 1879-80 the whole amount of taxation was 54,550,000 yen of which the land tax yielded 41,900,000 yen or a trifle less than eight-tenths. This shows that the principal revenue from Taxes is derived from the land. As I have before observed, previous to the abolition of the *Han*, every *Daimio* had his own system of levying taxes, and there were astonishing differences between the rate at which the land tax was levied in different parts of the country. The heaviest rate was $\frac{1}{10}$ of the annual quantity harvested by the peasant,⁽¹⁰⁾ the lightest being $\frac{1}{20}$ of the produce. Between these there were various other rates, such as $\frac{1}{10}$, $\frac{1}{15}$, $\frac{1}{20}$, so that there was a great want of uniformity in different localities. The land was measured by *cho* and *tan*, but the area of these measurements also varied more or less in different places. These variations were perhaps unavoidable under the feudal system, but when the whole country was brought under the authority of a single government, it was impossible to continue to subject the people to inequalities. This was the reason why in 1873 the government undertook the reform of the land tax.

The principle of this revision was as follows: The average was taken of the actual yield during 5 years, and valued at the average price obtained during the same period. This being taken as the profit on the land, furnished a basis for calculating the capitalized value of the land itself, and the land-tax was fixed at 3 per cent on this value. It was also enacted that a resettlement should take place every six years.⁽¹¹⁾ If this arrangement be translated into the language of the old system, it would be equivalent to " $\frac{1}{10}$ to the lord and $\frac{1}{20}$ to the cultivator," so that compared with the heaviest rates under the old regime it amounts to an abatement of $\frac{1}{10}$ or $\frac{1}{20}$.⁽¹²⁾ But apart from the care taken to assess the

Principle of revision.

(10) NOTE. It may perhaps seem that with a division of the produce in the rate of $\frac{1}{10}$ to the lord and $\frac{1}{20}$ to the cultivator, the latter could hardly be able to exist, but there were various counter-balancing facts, such as the measurement of the land being underestimated (*savanobi*), so that the hardship was not so great as this proportion might lead one to suppose.

(11) NOTE. Full details can be learnt from the "Land Tax Revision Law."

(12) NOTE. It must be remembered that the average price of rice upon which the revision of the land tax was based was about 4 yen 20 sen a *koku*, whereas the price to-day is over 10 yen. If we were to take the average present price, to be 9 yen, and the rate at which it was taken for the revision to be 4 yen 20 sen, and compare the actual amount realized by the cultivator with that which he pays to the government, we should find the proportion to be about " $\frac{1}{10}$ to the cultivator and $\frac{1}{20}$ to the lord." In the comparison made above of the old and new systems, the benefit of the unassessed

value of the land with exactness, differences of opinion with regard to the value arose out of various complicated circumstances, and, in conformity with human nature, no great amount of gratitude was felt by the peasants for this lightening of their burden, while those on whom the taxes happened to bear a little heavier than before grumbled loudly and angrily, and even to this day peasants now and then present complaints of the assessment being unfair.

Desirability
of further
reduction.

Although the land tax had been revised in this manner, the government still felt that it was unjust to make the peasant alone bear the burden of heavy taxation, recognizing the fact that he was restrained from fully developing his productive powers, they adopted the principle of gradually abating the land tax, while increasing other taxes, so as to remedy the unequal incidence of taxation. In 1877 they consequently made a further reduction in the land tax to the extent of one-sixth.

Increase in
other sources.

In consequence of this abatement the loss to the revenue was about 8,200,000 yen. But faithful to the principle of lightening the land tax and increasing other species of tax at the same time, they have made an annual increase in the latter, as is shown in the following table.

Year.	Customs Duties.	Tax (not land nor customs).
1868	720,000	420,000
1869	500,000	540,000
1870	640,000	450,000
1871	1,070,000	430,000
1872	1,330,000	460,000
1873	1,680,000	2,720,000
1874	1,490,000	4,390,000
1875	1,710,000	7,120,000
1876	1,980,000	6,710,000
1877	2,350,000	6,110,000
1878	2,350,000	8,670,000

Reduction of
number of
articles taxed.

Although the amount produced by taxation has increased year by year, no addition has been made to the number of species of tax since the abolition of the *Han*, but on the contrary a decrease has taken place, as shown below.

lands and lax measurement of the old system was taken into account, and the real proportions taken by the lord and the cultivator were stated; the nominal division of $\frac{1}{10}$ to the lord and $\frac{9}{10}$ to the cultivator was not made the basis of comparison. If this be done, and allowance be made for the unassessed lands and lax measurement, then the $\frac{1}{10}$ to the lord and $\frac{9}{10}$ to the cultivator would come in reality to about equal shares for each.

Year.	No. of smaller species of tax.
1871	1575
1872	1573
1873	1593
1874	1594
1875	42
1876	48
1877	48
1878	49
1879	51
1880	49

As shown here, no great addition has been made to the kinds of tax, while an increase has taken place in the amount raised by taxation, which may lead to the supposition that the rate of separate taxes may have been raised. This however, with one or two exceptions, is not the case, but the increased yield is the result of a gradual tendency towards development of manufactures, intercommunication and trade.

Irrespective of the decrease in the land tax, the gradual Annual increase annual increase in the government revenue derived from in revenue. taxes, is shown in the following table.

1877-78 rough final account ...	49,710,000 yen.
1878-79 " " " ...	50,900,000 "
1879-80 " estimate " ...	51,280,000 "
1880-81 " " " ...	54,550,000 "

We may conclude from these figures that the revenue derived from taxation is not decreasing, but on the contrary is on the increase. And from the fact that the principal classes of tax are no more than 19 in number, it can be seen that the government firmly adheres to the principle of sparing and nursing the national resources.

VI.—GOVERNMENT ASSETS.

I have now recounted the measures carried out by the Assets. government during the last 13 years and described its financial position during that period, and though on the 30th June 1880 the national debt for which it is responsible, including domestic and foreign liabilities and paper currency (and deducting the amount of the reserve and of advances made to private undertakings) amounted to about 299,400,000 yen, its assets are worth a large sum. A part also of the annual expenditure and public debt has been converted into government property, as for instance the railways, telegraph and factories of all kinds. The following is a rough statement of the government assets.

Govt. Forests (excluding the Hokkaido) ...	4,673	Square Ri.
„ Building Lands	91	do.
„ Agricultural Lands	2	do.
„ Prairie Lands... ..	126	do.
„ Trees	2,226,650,000	
„ Ship building Yards	3	
„ Arms Factories & Powder Mills	5	
„ Ships... ..	51	
„ Factories	52	
„ Light houses	35	
„ Telegraph	3,658	Ri.
„ Railways	30	„
„ Mines	10	„

Extra assets.

Besides the above there are a quantity of houses and godowns, to say nothing of the Hokkai-do, having an area of 5,860 square ri, the number of immigrants to which island increases annually, while its productions tend to develop in a corresponding ratio, though it is still far from being completely brought under cultivation, as the following statistics show. If its present rate of growth receives no check, it will one day rival the old country in the amount of its productions.

Hokkai-do.

Total area of the Hokkai-do... ..	5,860	Square Ri.
Area of cultivated ground and building land	10	do.
Population	211,304	

**Assets in excess
of liabilities.**

Although the government has calculated that the whole of the national liabilities can be paid off in 28 years from 1878 out of the annual revenue alone, it is evident that if a fair price were placed upon the above enumerated assets, they would easily suffice to redeem the 299,400,000 yen of debt.

VII.—CONDITION OF THE COUNTRY.**Condition of
the country.**

In the foregoing account of our financial policy I have frequently referred to the condition of the country as advanced by the undertakings of these thirteen years, and though the three great reforms briefly noticed at the commencement of this paper, the reform of the laws and the encouragement of industries have been by no means insignificant or few, I will merely cite those matters of which we can obtain a clear idea from numerical statistics.

Telegraphs.

At the time of the Restoration there was no such thing as a telegraph in operation, and for expresses the only available means were men or horses, but immediately after that event the government set to work to construct telegraphs, and the nation speedily awaking to its advantages, the total distance connected by telegraphs was increased by 1880 to 1,600 ri (4,000 English miles). All the most important towns in the country are now able to communicate with each other instantaneously. In 1879 we joined the International Tele-

graph Convention, and telegraphic communication with all parts of the world has since become an easy matter. Compared with the state of things 10 years ago, when the ignorant people cut down the telegraph poles and severed the wires, we seem rather to have made a century's advance.

Previous to the Restoration, with the exception of the posts **Post office.** sent by the *Daimios* from their residences at the Capital to their territories, there was no regularly established post for the general public and private convenience. Letters had to be sent by any opportunity that occurred, and a single letter cost over 25 *sen* for a distance of 150 *ri*. But since the Restoration the government for the first time established a general postal service, and in 1879 the length of postal lines was 15,700 *ri* (nearly 40,000 English miles), and a letter can at any time be sent for 2 *sen* to any party of the country. In 1874 we entered the International Postal Convention, and have thus obtained great facilities for communicating with foreign countries.

It was also this government that, after the Restoration, for **Railways.** the first time constructed railways, and connected the chief open ports with the cities in their immediate neighbourhood. In 1879 over 30 *ri* (75 English miles) of railway were opened, and further extensions have already been undertaken, while many of the people have come to recognize the conveniences they afford.

Although there were lights upon the most important of the **Lighthouses.** headlands previous to the Restoration, their construction was extremely primitive, and their illuminating power extended but a short distance. Their number, also, was small. But since the Restoration European and American models have been taken, and 35 additional lighthouses have been constructed, besides buoys and beacons, to say nothing of the numerous harbour improvements carried out.

Japanese vessels of native build are in favour to those of **Shipbuilding.** European build in the facilities they afford for navigation. In 1871, 4 years after the Restoration, the number of ships of foreign build was no more than 74, but the government encouraged their construction, and by 1878 they reached 377. The government has two ship-building yards, one yard for the repair of ships, besides which there is one yard for the construction of ships of foreign model aided by government and 2 or 3 private establishments of the same character. The number of vessels of native build in 1876 was 450,000, and in 1878 had reached 460,000.

From the time preceding the Restoration until 1875 the **Coast trade.** coasting trade was entirely in the hands of foreigners, and Japanese had to travel by foreign mail steamers. But in the latter year, by the aid of the government, a mail ship company was formed, and the coasting trade fell into the hands of

Wheeled vehicles.	<p>our own people. This company now runs lines of steamers to Hongkong and China, and is daily extending its business.</p> <p>Before the Restoration the employment of wheeled vehicles was extremely limited, but after that event their use was widely developed, and the number of carts &c. has increased year by year. In 1875 the number that paid the tax was 220,000, and in 1878 340,000.</p>
Steamers.	<p>Since the Revolution the use of steamers has daily increased, and the Inland Sea, the lakes and larger rivers are now constantly navigated by small steamers employed in the carrying trade.</p>
Foreign trade.	<p>As regards foreign trade, in 1869 the total amount of imports and exports (1868 being a year of war, we take the figures for 1869) was 33,680,000 yen, and in 1879 64,120,000 yen. Imports had grown from 20,780,000 yen to 36,290,000 yen, and exports from 12,909,000 yen to 27,830,000 yen, in the one case showing an advance from 2 to 3½, in the other from 2 to 5.</p>
Education.	<p>In Education, up to the Restoration the schools supported by the <i>Daimios</i> and private schools were few in number, but since that epoch the educational system has been vastly improved, with a resulting increase in the number of schools. In 1878 of High, Middle and Primary Schools there were altogether 27,600, with 68,000 teachers and 2,319,000 pupils.</p>
Yezo.	<p>Before the Restoration no progress had been made with the colonization of the Hokkai-do, but since that event that duty has been entrusted to a Commission endowed with absolute powers, and the productions now exhibit a daily growing tendency to develop, postal communication has been established, fisheries and agriculture are encouraged, the number of immigrants has annually increased, and native merchants from the mainland, gradually appreciating the advantages, are extending their trade with the Island.</p>
Conclusion.	<p>In conclusion, I am convinced that if we reflect upon the facts, we shall not fail to admit that considering that the government has broken down the prejudices of centuries, abolished the Shogunate, resumed the fiefs of the <i>Daimios</i>, released the military class from its hereditary functions, commuted their pensions, organized the army and navy, reformed the laws and institutions, and accomplished the numerous other results to which I have briefly alluded, all in the space of 13 years, the financial condition which I have described in the foregoing pages is not a bad result after all.</p>

THE following review, embracing the several year's accounts referred to in the "General View," appeared in the *Japan Gazette* of April 23rd and 30th, 1881.

THE FINANCIAL POSITION OF JAPAN: 1880.

HIS Excellency OKUMA SHIGENOBU, a member of the H. E. Okuma. supreme council of state, chief controller of the exchequer, and ex-minister of finance, has presented to the government, in the form of a pamphlet of thirty pages, a comprehensive summary of the financial operations of the government since their accession to power in 1868, styled "A General View of Financial Policy during thirteen years (1868-1880)."

The uncertainty which prevails respecting the financial status of the empire, the possibility of liquidation of the debt, and of a return to specie payments by the eventual redemption of the fiat money formerly issued in discharge of liabilities incurred in excess of income, gives rise to a natural anxiety to ascertain the actual condition of affairs. Until a few months ago nothing had been published but the annual estimates, documents which were regarded with little interest. About June 1880, a summary of the finances for eight years 1868-75, based upon ascertained revenue and expenditure, was published, showing a surplus of 46,904,000 yen. Since then, the exact figures of the years 1875-76 to 1878-79 have been published, and the work to which we now propose to refer at some length purports to be a general review of the whole period.

HIS excellency opens with a brief address to the prime minister, setting forth the reasons which induced the compilation of the summary. He explains that national finances are affected by every disaster to the country, and benefited by every reform. In the first category he places the war of the restoration, the expedition to Formosa with its attendant Chinese complications, and the Satsuma rebellion. In the second category we find the abolition of the shogunate, the substitution of a centralised administration for the feudal system, and the emancipation of the military classes from the peculiar duties formerly imposed upon

them, and the conversion of their pensions into government bonds. Receipts and expenditure are dealt with on the broad system of yearly totals, the final balance being called a surplus, and the surplus a reserve fund. This section shows a "surplus from 1868 down to the end of June 1879," of 53,520,000 yen: "while the reserve fund at the beginning of the year 1879 stood at 50,900,000 yen; a position of unusual prosperity for any country, and especially so for Japan just emerged from the misgovernment of feudalism. These results are, however, materially qualified by the following statement:—"It must be remembered that the surpluses shown in the foregoing table are due to the fact that the actual revenue during those five years (1868-1872) being insufficient paper currency was issued to meet the deficiency." The remainder of the book is divided into chapters on "Paper Currency," "National Debt," "Banks," "Taxation," "Government Assets," and "Condition of the Country." We shall find it most convenient to take these in the order given; but before dealing with its merits it is advisable to ascertain what opinion would be formed of the financial condition of Japan from perusal of this book by a person not well acquainted with affairs, and without means of referring to the detailed statements said to be necessary to a clear understanding of the results obtained. We venture to aver that perusal of H. E. OKUMA's book must create either a most favourable impression, or one of distrust and suspicion amounting to absolute disbelief. There can be no middle course. On one side there is an official statement showing eleven large annual surpluses and two deficiencies, the balance in favour of the exchequer being somewhat greater than an ordinary year's income. On the other side, is the fact, not stated in the book, that the paper currency of the country, reduced in amount, has declined in purchasing value from par when its issue was greatest, to 182 paper for 100 silver when its issue is smallest; and, while a large surplus lies idle in the treasury as a "reserve fund," maintained for the special purpose of preventing depreciation of currency and other government bonds, as explained by H. E. OKUMA to Mr.

The impression the "General View" is likely to create.

Surpluses opposed to depreciation of currency.

Object of "reserve fund."

MOUNSEY, secretary of H. B. M. legation, at the close of 1877. The most prominent difficulty, therefore, is to reconcile the serious depreciation of government paper with the declarations that the total issue is only 108,680,000, and that the surplus revenue is 53,520,000, of which a sum of 51,000,000 is actually in the treasury as a reserve fund. Also, to ascertain why the expenses of the Saga rebellion, suppression of riots, expeditions to Formosa and Korea, and similar items are included in the general expenditure, while the far greater cost of the Satsuma rebellion is omitted. This omission is by no means explained by the note to part I, which reads: —“If the expenditure on the suppression of the rebellion had been included under expenditure for that year, it would have become necessary to set down under the head of revenue the paper, money issued and the loans contracted. In that case the revenue of the year in which this insurrection took place would show an additional surplus of 440,000 yen, but it has been thought better to adhere to the form of the annual budgets, and to omit the cost of its suppression from both sides of the account.” This explanation is unsatisfactory for the purpose for which it is intended, and calls attention to a departure from instead of an adherence to the forms of the annual budgets by omitting therefrom the cost of one rebellion and including the expenses of all others: also to the anomaly by which an addition of a heavy item of *expenditure* should increase the *surplus* by 440,000 yen. With this we shall deal in its proper place. His excellency protects himself, but somewhat confuses the reader, by announcing “that any one who desires to understand the character of our financial policy since the restoration must take the trouble of consulting all the reports which have appeared during the whole of this period.” Unfortunately, reference to these reports is scarcely possible, as few if any of the public possess or have access to them. Again, these documents require considerable knowledge of figures and of the modes of stating an accurate account, to make reference useful. We propose, therefore, to partially supply the deficiencies in the work before us by first compiling concise accounts explanatory of the table of revenue, expenditure, surplus, and deficit, set out in the first chapter, varying the mode slightly by carrying to each account the balance of the preceding account. We begin with 1868.

Anomaly of
issue, reserve,
and depreciation.

Omission of
costs of Satsuma
rebellion.

Explanation
insufficient.

Reference to
earlier reports
very difficult.

Want supplied.

1868.

1868.

RECEIPTS.		EXPENDITURE.	
Land tax	2,009,013	Departmental ...	1,675,773
Customs	720,866	Army and navy...	1,059,797
Other taxes...	1,432,329	Fu and ken ...	938,221
Sale of lands ...	23,400	Hereditary pen-	
Paper money ...	24,037,389	sions	294,965
Loans received ...	4,732,482	Loans made ...	18,157,279
Loans repaid ...	124,521	Rebellion charges.	3,474,328
		Paid account	
		loans	263,293
		Other expenses (1)	4,636,344
		Balance	2,580,000
	<u>33,080,000</u>		<u>33,080,000</u>

1869.

1869.

RECEIPTS.		EXPENDITURE.	
Balance from 1868	2,580,000	Departmental ...	2,424,858
Land tax	3,355,963	Army and navy...	1,547,965
Customs	502,817	Colonization ...	564,062
Other taxes...	1,175,570	Fu and ken ...	1,006,822
Sale of lands ...	24,943	Hereditary pen-	
Paper money ...	23,962,610	sions	1,606,922
Loans received ...	911,500	Loans made ...	4,507,180
Loans repaid ...	4,496,597	Rebellion expenses	2,315,640
		Paid account	
		loans	1,565,426
		Other expenses ...	5,241,125
		Balance	16,230,000
	<u>37,010,000</u>		<u>37,010,000</u>

(1) "Other expenses" include construction and repair of works rewards for meritorious services, "ordinary advances," debts of old government and foreign demands, expenses of mines, telegraphs, lighthouses, railways, factories, mint, making paper money, and interest.

RECEIPTS AND EXPENDITURE.

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1870.		1870.	
RECEIPTS.		EXPENDITURE.	
Balance from 1869	16,230,000	Departmental ...	2,847,440
Land tax ...	8,218,969	Army and navy...	1,500,173
Customs ...	648,453	Colonization ...	327,217
Other taxes...	1,544,495	Fu and ken ...	942,135
Sale of lands ...	310,000	Hereditary pen-	
Paper money ...	5,354,512	sions ...	1,691,911
Loans received ...	4,782,400	Rebellion expenses	1,227,413
Loans repaid ...	91,171	Loans made ...	661,678
		Paid account loans	2,344,068
		Other expenses ...	8,557,965
		Balance ...	17,080,000
	<u>37,180,000</u>		<u>37,180,000</u>

1871.		1871.	
RECEIPTS.		EXPENDITURE.	
Balance from 1870	17,080,000	Departmental ...	2,789,678
Land tax ...	11,340,983	Army and navy...	3,252,965
Customs ...	1,071,630	Colonization ...	353,679
Other taxes...	3,605,500	Fu and ken...	625,749
Sale of lands ...	628	Hereditary pen-	
Paper money ...	2,145,487	sions ...	1,779,741
Loans repaid ...	3,975,772	Rebellion expenses	95,529
		Loans made ...	835,873
		Paid account loans	1,471,193
		Other expenses ...	8,025,593
		Balance ...	19,990,000
	<u>39,220,000</u>		<u>39,220,000</u>

1872.		1872.	
RECEIPTS.		EXPENDITURE.	
Balance from 1871	19,990,000	Departmental ...	4,518,596
Land tax ...	20,051,917	Army and navy...	9,568,389
Customs ...	1,331,560	Colonization ...	547,950
Other taxes...	5,984,902	„ loan...	2,500,000
Sale of Lands ...	69,191	Fu and ken...	7,149,634
Paper money ...	17,825,444	Hereditary pen-	
Loans repaid ...	5,176,986	sions ...	15,307,063
		Riot expenses ...	3,637
		Loans made ...	1,665,224
		Other expenses ...	16,469,507
		Balance ...	12,700,000
	<u>70,430,000</u>		<u>70,430,000</u>

1873.

1873.

RECEIPTS.	EXPENDITURE.
Balance from 1872 12,700,000	Departmental ... 5,417,744
Land tax ... 60,604,242	Army and navy... 9,688,063
Customs ... 1,685,974	Colonization ... 760,926
Other taxes... 10,049,583	Fu and ken... 8,205,460
Sale of land... 1,590,473	Paid account loans 884,006
Loans received ... 10,883,600	Hereditary pen-
Loans repaid ... 736,178	sions ... 16,981,477
	Riot expenses ... 82,404
	Loans made ... 86,889
	Other expenses ... 20,563,031
	Balance ... 35,530,000
98,200,000	98,200,000

1874.

1874.

RECEIPTS.	EXPENDITURE.
Balance from 1873 35,530,000	Departmental ... 5,915,623
Land tax ... 59,412,428	Army and navy... 10,418,411
Customs ... 1,498,257	Colonization ... 1,084,730
Sale of lands, mines and government works ... 529,201	Fu and ken... 9,493,150
Loans repaid ... 690,107	Hereditary pen-
Other taxes... 11,310,007	sions ... 24,750,323
	Riot expenses ... 43,888
	Saga and Formosa 3,188,990
	Loans made ... 1,250,364
	Commutation of
	pensions ... 7,658,612
	Other expenses ... 18,505,909
	Balance ... 26,710,000
108,970,000	108,970,000

RECEIPTS AND EXPENDITURE.

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1875.

1876.

RECEIPTS.	EXPENDITURE.
Balance from 1874 26,710,000	Departmental ... 3,050,538
Land tax ... 67,717,946	Army and navy... 10,784,895
Customs (*)... 1,038,103	Colonization ... 2,041,089
Sale of land and	Fu and ken... 4,764,240
mines ... 618,056	Paid account loans 718,870
Loans repaid ... 420,698	Hereditary pen-
Other taxes .. 16,525,197	sions ... 24,880,065
	Saga and Formosa 1,474,504
	Loans made ... 1,705,370
	Commutation of
	pensions... 4,040,899
	Other expenses ... 12,669,530
	Balance ... 46,900,000
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113,030,000	113,030,000
<hr/>	<hr/>

1875-1876.

1876-76.

RECEIPTS.	EXPENDITURE.
Balance from 1875 46,900,000	Departmental ... 13,390,544
Land tax ... 50,345,327	Army and navy... 9,785,578
Customs ... 1,718,732	Colonization ... 1,930,468
Sale of land... 1,925,361	Fu and ken ... 6,761,459
Loans repaid ... 2,204,786	Hereditary pen-
Other taxes... 13,285,794	sions ... 17,658,127
	Korean expedition 489,552
	Loans made ... 2,965,895
	Commutation of
	pensions ... 7,626,910
	Paid account loans 1,396,434
	Other expenses ... 7,195,033
	Balance ... 47,180,000
<hr/>	<hr/>
116,380,000	116,380,000
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(2) This item is omitted from the list of receipts from customs given in part V.

1876-77.

RECEIPTS.	
Balance from 1875-	
76	47,180,000
Land tax	43,023,425
Customs	1,988,667
Loans repaid	697,997
Sale of lands ⁽³⁾ ...	849,253
Other taxes... ..	12,920,658
	<u>106,660,000</u>

1876-77.

EXPENDITURE.	
Departmental ...	13,538,010
Army and navy...	10,329,825
Colonization ...	1,903,868
Fu and ken ...	3,709,338
Hereditary pen-	
sions	17,616,574
Paid account loans ⁽⁴⁾	773,913
Other expenses ...	11,428,472
Balance	<u>47,360,000</u>
	<u>106,660,000</u>

1877-78.

RECEIPTS.	
Balance from 1876-	
77	47,360,000
Land tax	39,439,246
Customs	2,358,653
Sale of lands ⁽³⁾ ...	240,251
Loans repaid	799,361
Other taxes... ..	9,602,489
	<u>99,800,000</u>

1877-78.

EXPENDITURE.	
Departmental ...	7,688,475
Army and navy...	9,294,228
Colonization ...	1,496,773
Fu and ken ...	4,391,543
Interest on com-	
muted pensions ⁽⁵⁾	13,888,703
Paid account loans	828,483
Other expenses ...	10,941,795
Balance	<u>51,270,000</u>
	<u>99,800,000</u>

1878-79.

RECEIPTS.	
Balance from 1877-	
78	51,270,000
Land tax	39,883,463
Customs	2,351,634
Sale of land ⁽³⁾ ...	954,202
Loans repaid	432,939
Other taxes	18,237,762
	<u>113,130,000</u>

1878-79.

EXPENDITURE.	
Departmental ...	7,962,593
Army and navy...	9,241,604
Colonization ...	1,719,171
Fu and ken ...	4,266,570
Interest on com-	
muted pensions.	14,769,244
Paid account loans	922,401
Redemption of pa-	
per money ⁽⁶⁾ ...	7,166,186
Other expenses ...	13,562,231
Balance	<u>53,520,000</u>
	<u>113,130,000</u>

(3) This item has heretofore been confined to land only; but from this period no division is shown in the statements which merely give "sales of government property."

(4) A larger sum was paid beginning with this and continued in subsequent years, but not on account of advances received, the payments being a sinking fund against the bonded debt incurred for commutation of pensions.

(5) In this year the hereditary pensions were commuted, the government issuing interest bearing bonds value 173,630,000 yen, of which this sum represents the interest.

(6) This is the first time this item is referred to specifically in the general statements.

Balance of general revenue account described Balance.
 in part I as "surplus" 53,520,000

To save the reader the trouble of examining even Summary.
 these condensed annual accounts we append a summary
 of all receipts and expenditure for the period under
 review, namely January 1868 to June 1879, eleven and
 a half years. For the first eight years of this period, the
 published statements contained somewhat fuller parti-
 culars than the subsequent four. The explanation given
 in the later statements is,—“Some of the items are not
 “properly arranged, because the items are not arranged
 “in exactly the same manner each year.” Great difficul-
 ty is, therefore, experienced in ascertaining the real sum
 advanced by the government in the form of loans to the
 people generally in encouragement of rice production, or
 of special industries; and these domestic advances must,
 for the present, be regarded as approximate only.

SUMMARY OF RECEIPTS AND EXPENDITURE: 11½ YEARS,
 JAN. 1868 TO JUNE 1879.

Gross receipts.
 and expenditure.

RECEIPTS.	EXPENDITURE.
Land tax ... 405,402,922	Departmental ... 71,219,872
Customs ... 16,915,346	Army and navy... 86,471,893
Sale of land... 7,134,959	Fu and ken... 52,254,321
Other taxes... 105,674,236	Hereditary pen- sions and in- terest on com- muted pensions. 151,225,115
Loans received ... 21,259,982	Expeditions to Formosa and Korea, and Saga rebellion, &c.... 12,395,885
Do. repaid ... 19,847,113	Colonization of Yezo ... 12,679,933
Paper money issued 73,325,442	Do. do. loan. 2,500,000
	Pensions commut- ed ... 19,326,421
	Paper money re- deemed ... 7,166,186
	Loans to the people 31,835,852
	Loans repaid ... 11,168,086
	Other expendi- tures ... 137,796,436
	Balance ... 53,520,000
<u>649,560,000</u>	<u>649,560,000</u>

Balance
described as a
reserve fund.

Balance
transferred to
reserve fund.

Misconceptions
due to the
foregoing.

Anomaly of
the financial
position.

Erroneous
method of
stating the
accounts.

The balance of this current account is the sum described by his excellency as "a surplus of 53,520,000 yen for the 11½ years," a statement subsequently qualified by the following—"It must be remembered therefore that the surpluses shown in the foregoing table are due to the fact that the actual revenue during those five years being insufficient, paper currency was issued to meet the deficiency;" still H. E. OKUMA, confessedly admitting the surplus to be but the balance of the current account of receipts from real revenue sources, from loans, and paper money issued, precedes the admission by this announcement:—"It will be seen from the preceding table that during this period of 11½ years there are only two years, namely 1872 and 1874, which show a deficit, while, during the other nine the revenue constantly exhibits a surplus, so that at the end of the period there is a total surplus of 53,520,000 yen. *This sum has been transferred to the reserve in accordance with the established regulations, to form a fund for the redemption of the national debt.*" The italics are ours. A clear and distinct statement of this sort, made on the authority, and after mature deliberation, of the ex-minister of finance and now chief of the national exchequer department of the government of Japan, is entitled to every credit; and has, on account of the credence with which it has been received, given rise to very grave misconceptions, which we shall do well to examine with care, and with a view to throw some light upon the position in which H. E. OKUMA finds himself placed; namely, in the position of a treasurer with a *surplus reserve* of 53,520,000 yen collected to form a fund for redemption of debt, wholly unable to touch any portion of that sum, or to redeem that debt, or to stem the depreciation which is to him, as to us all in our different walks of life, a heavy burden and anxiety. H. E. OKUMA has an implicit belief in his figures and results; but we attribute the misfortune of his administration and his self-deception to want of knowledge of the true method of stating an account to convey a correct impression of the finances; an account that shall challenge criticism, and be confirmed by investigation. Upon the assumption that H. E. OKUMA has verified the figures to his satisfaction, we will proceed to state an account to give the real result of the period under notice.

REVENUE AND EXPENDITURE: 11½ YEARS, JANUARY 1868 TO JUNE 1879. Revised account.

REAL REVENUE.		REAL EXPENDITURE.	
Land tax ...	405,402,922	Departmental ...	71,219,872
Customs ...	16,915,346	Army and navy...	86,471,893
Sale of land...	7,134,959	Fu and ken ...	52,254,321
Inland taxation ...	105,674,236	Pensions and interest ...	151,225,115
TOTAL ...	535,127,463	Rebellions and expeditions ...	12,395,885
Loans and advances made by the state refunded by the borrowers ...	19,847,113	Colonization of Yezo ...	12,679,933
Proceeds of loans negotiated at home and abroad	21,259,982	Pensions purchased ...	19,326,421
Promissory notes issued ...	73,325,442	General expenditure...	137,796,436
		TOTAL ...	543,369,876
		Loans and advances made by the state recoverable ...	34,335,852
		Home and foreign debts repaid ...	11,168,086
		Paper money redeemed ...	7,166,186
		Money in the treasury ...	53,520,000
	649,560,000		649,560,000

The balance is identical with that claimed by H. E. A balance, but OKUMA as a surplus; but our readers will observe that not a surplus. it is in no sense a surplus. In all accounts the cash book plays an important part: in it every payment received and made is entered, and the difference, the balance, represents the sum left in the hands of the cashier at any given period. That balance is, however, as previously stated, in no sense a surplus. It is an Liabilities must asset; a part only of the final statement, the balance of be considered. which alone can show the result. This explanation is important in relation to the following statement of assets and liabilities, the balance of which, instead of the balance of the cash account, represents the actual result.

CURRENCY.

ASSETS.

Loans due from sundry persons	34,335,852	
Less repaid	19,847,113	14,488,739
		<hr/>
Money in treasury		53,520,000
Deficiency		8,242,413
		<hr/>
		76,251,152
		<hr/>

LIABILITIES.

On paper money	73,325,442	
Less redeemed... ..	7,166,186	66,159,256
		<hr/>
Loans, home and foreign	21,259,982	
Less repaid	11,168,086	10,091,896
		<hr/>
		76,251,152
		<hr/>

Deficit.

There is here a deficit of 8,242,413 ; the sum required to balance the real revenue received with the net expenditure for purely state purposes, namely :—

Real expenditure	543,369,876	
„ revenue	535,127,463	deficit ... 8,242,413
		<hr/>

Another mode.

For the benefit of our Japanese readers we will make this still clearer by quoting H. E. OKUMA's figures, which include all receipts, loans, and paper emissions, as given in part I for the whole period as :—

649,560,000

DEDUCT.

Paper money	66,159,256	
Loans, home and foreign, less repayments	10,091,896	76,251,152
		<hr/>
NET AMOUNT... ..		573,308,848
Expenditure as stated	596,040,000	
Balance due on loans recoverable... ..	14,488,739	
		<hr/>
NET AMOUNT... ..		581,551,261
		<hr/>
Same result.	EXCESS OF EXPENDITURE	8,242,413
		<hr/>

These accounts show that practically the so-called Surplus reserves reserve fund is an asset 8,242,413 yen short of the sum itself into a deficit required to cover the net liability on paper currency and arrears of loans. A reserve fund, strictly speaking, and as the term is only applied by business men, is an appropriation of a portion of the income, surplus, or profit, to form a separate fund available for some anticipated or unforeseen contingencies; and it is so understood by H. E. OKUMA.

If a banker were to describe the balance of cash in H. E. Okuma's hands for the conduct of business, a fund varying every day, as his reserve fund, he would be guilty of a misrepresentation the *gravamen* of which would depend upon his ignorance or intention; and we are convinced that H. E. OKUMA has been deceived by some incompetent persons into the assumption that his fluctuating balance of cash is a surplus; or it would not be so positively set forth, and so frequently referred to as such.

We may now contrast the impressions that persons in Europe, America, &c.; interested in Japanese progress will form of the resources of Japan from the "General view of financial policy," with the real condition of things. We have:—

<i>Average.</i>	<i>General view.</i>	<i>Actual.</i>
Annual revenue... ..	56,483,489	46,532,832
Loans and paper currency ...	undefined	9,950,657
	<u>56,483,489</u>	<u>56,483,489</u>
Annual expenditure	51,829,566	47,249,563
Surplus revenue (7)	4,653,913	.....
Deficit of revenue (8)... ..	—	716,731
	<u>56,483,479</u>	<u>46,532,832</u>

So far, attention has been confined to the statements referred to by H. E. OKUMA as essential to a proper understanding of the results he has arrived at. Those statements, however, only supply a portion of the particulars, omitting all record of the expenses of the Satsuma

(7) Surplus 4,653,913 × 11.5=53,520,000 (*vide* part I.)

(8) Deficit 716,731 × 11.5=8,242,413.

Cost of Satsuma rebellion, and the manner in which they were provided for, alluded to in the "General view," parts II and III. These items must be considered as parts of the accounts which, continued, give the following result:—

Corrected
account.

RECEIPTS.	EXPENDITURE.
Gross revenue detailed in preceding accounts ... 649,560,000	Gross expenditure detailed in preceding accounts 596,040,000
Paper issued in 1877 to meet expenses of rebellion 27,000,000	Expenses of rebellion 41,560,000
Loan for same purposes 15,000,000	Balance 53,960,000
<u>691,560,000</u>	<u>691,560,000</u>

Increased
expenditure
adds to
reserve fund!

Probably a better illustration of the error of assuming the balance of such a cash account as this to be a surplus, and that surplus to be a reserve fund, could not be given. When to the expenditure are added the heavy expenses of a period of civil war provided for by paper currency and loans, the "reserve fund" is actually increased; but when the position is critically examined the converse appears.

Real results.

REVENUE.	EXPENDITURE.
Real net revenue... 535,127,463	Expenditure proper, 543,369,876
Balance 49,802,413	Satsuma rebellion 41,560,000
<u>584,929,876</u>	<u>584,929,876</u>
Balance; deficiency	49,802,413

ASSETS.

Net sum of loans due to government...	14,488,739
Money in treasury	53,960,000
Deficiency	49,802,413
	<hr/>
	118,251,152
	<hr/>

LIABILITIES.

Net liability on paper currency...	93,159,256
Loans due	25,091,896
	<hr/>
	118,251,152
	<hr/>

In thus including the Satsuma rebellion expenditure we follow H. E. OKUMA in the disposition of the Saga rebellion charges, costs of suppressing riots, Formosa and Korean expeditions, &c.; the result being that a corrected account shows a deficiency of revenue of 49,802,813 yen. Here let us say at once that this deficit includes a total sum of 53,955,585 yen as the cost of war, civil and foreign. And this, we submit, is the true result, notwithstanding that the difference between the surplus of the "General view," and our deficiency amounts to the startling sum of 103,762,413 yen explained in this manner. H. E. OKUMA has included paper money and loans received as revenue: the propriety of this course is open to question; but the real error consists in ignoring the liability, or, in other words, making no provision for the liquidation of liabilities incurred to cover expenditure absolutely made. When this provision is attempted the deficiency at once appears:—there is a net liability on bills payable of 103,762,413 yen, the sum named above. To meet this there is a balance of cash in hand of 53,960,000, or 49,802,413 yen short of the sum required.

Cost of all rebellions should be included.

Deficit really of 49,802,813 yen.

Cost of wars.

Difference between two accounts explained.

To complete this portion of the review, we submit the following conclusive table of receipts, expenditure, balances, assets and liabilities for each period, as the account that should be substituted for that contained in the first section of the "General view" entitled "Revenue and expenditure:"—

Comprehensive survey of each year's finances.

Tabular state-
ment of the
annual finances.

YEAR.	REAL REVENUE.	OTHER RECEIPTS.	REAL EX- PENDITURE.	OTHER PAYMENTS.	EXCESS OF REVENUE.	EXCESS OF EXPEN- TURE.	ASSETS.	LIABILITIES.
1868	4,185,608	28,894,392	12,079,428	18,420,572	—	7,893,820	20,612,758	28,506,578
1869	5,059,233	29,370,707	14,707,394	6,072,606	—	9,948,101	13,680,583	23,306,684
1870	10,721,917	10,228,083	17,034,254	3,005,746	—	6,872,387	1,420,507	7,792,844
1871	16,018,741	6,121,259	18,922,984	2,307,066	—	304,198	8,745,873	4,680,086
1872	27,437,570	23,002,430	53,564,776	4,165,324	—	26,127,206	4,165,224	80,292,480
1873	73,930,222	11,569,778	61,699,105	970,895	12,231,117	—	22,890,000	10,598,888
1874	72,749,898	690,107	81,009,686	1,250,364	—	8,359,743	1,560,257	8,820,000
1875	85,689,302	420,698	63,706,760	2,424,240	22,198,543	—	23,198,543	—
1876-76	67,275,314	2,204,786	64,337,572	4,362,438	2,437,642	—	2,437,642	—
1876-77	58,782,003	697,997	58,526,087	778,913	255,916	—	255,916	—
1877-78	51,640,639	42,799,361	39,261,517	828,438	—	37,620,878	—	37,620,878
1878-79	61,427,061	432,939	51,621,413	8,088,587	9,906,648	—	9,906,648	—
TOTALS.	535,127,463	156,432,537	584,929,876	52,680,136	47,023,865	96,826,278	102,787,960	151,690,363

Want of correct
account cause
of error.

If H. E. OKUMA had had an account of this sort before him it is not likely he would have written "there are only two years, namely, 1872 and 1874, which show a deficit, while during the other nine the revenue constantly exhibits a surplus, so that at the end of the period there is a total surplus of 58,520,000 yen." He

would rather have said:—'The summary of accounts now presented shows that during the first three years of this administration the revenue was wholly insufficient to meet the demands necessitated by the expenses of a newly-formed central government; and the cabinet was compelled to draw upon the future by issuing notes during the first five years, 1868 to 1872, to the aggregate amount of 78,825,442 yen; and to raise money by domestic and foreign loans. The result shows, that in seven periods the real expenditure exceeded the revenue by 96,826,278 yen; and in five other periods the real revenue exceeded the real expenditure by 47,028,865 yen; the difference, 49,802,413 yen being the real ascertained deficit on June 30th, 1879, when the actual net liability on paper money and loans amounted to 118,251,152 yen, to cover which there were due on advances recoverable 14,488,739 yen, and a balance of money on current account of 53,960,000 yen.' A statement of this description would have prevented the erroneous impressions that must be formed from the repeated allusions to a surplus contained in the "General view," which are not sufficiently explained or qualified by the passing references to the issue of paper currency. No statement of account is complete or trustworthy that ignores the liabilities: and their omission in this instance we can only attempt to explain by the presumption that H. E. Okuma is persuaded that the state can, by stamping pieces of paper, create money the liability for which, not being obligatory, may properly be dismissed from further consideration. If all excess of expenditure is to be met with an addition to the revenue of loans and fiat paper money which are clearly not revenue, inasmuch as they represent liabilities equally with those for which the loans or paper issues were made to cover, no deficit can, under any circumstances, arise. The discharge of a debt by a promise to pay at some undefined date is merely a transfer of the continuing liability from one person to others; and the rule extends to money borrowed.

The comments a correct account would have suggested.

Erroneous impression would have been prevented.

Liabilities must not be ignored.

Loans and paper money clearly not revenue.

The true position of Japan, stripped of all the confounding surroundings, compares with that presented in the "General view" as follows:—

<i>Average.</i>	<i>General view.</i>	<i>Actual.</i>
Annual revenue... ..	60,135,652	46,532,822
Loans and paper currency... ..	undefined.	13,602,830
	<u>60,135,652</u>	<u>60,135,652</u>
Annual expenditure	55,443,478	50,863,467
Surplus ⁽⁹⁾	4,692,174	—
Deficit ⁽¹⁰⁾	—	4,330,645
	<u>60,135,652</u>	<u>46,532,822</u>

The supposed surplus is a real deficit.

What the nation has to show for the deficit in finances.

We think these figures conclusively show that no surplus has ever been realised. Taking every item into account there has been a mean deficit of 4,330,645 yen per annum; and for the gross sum, namely 49,802,413 yen, the state remains a debtor devoid of realisable assets. For what purpose the deficit is persistently styled a surplus is unintelligible. Wars alone account for four millions more than the gross deficit. And if we look around we find the nation enjoys at this moment the substantial fruit of its expenditure in the shape of an excellently equipped army; a large force of disciplined constabulary; a small but good and well-armed navy; efficient lines of rails connecting the eastern and western capitals with the trade ports of Yokohama and Kobe; an effective series of telegraph wires traversing the country and bringing the most remote districts within a few hours at most of any part of the empire; dockyards and arsenals well supplied with machinery, and all appliances and munitions for war as for peace; a post office second to none in the accuracy of its working and the unmistakeable signs it gives of progress; the coasts studded with lighthouses and lightships, the service being constantly attended by a competent staff of officers; a number of factories, mines, and other works which, though not so profitable as they were expected to be, still represent good value for the money expended on them; a mint; and a vast collection of imported articles of all descriptions in addition. Taking the figures as they are the result is far from unsatisfactory; but we have to face the fact that, after deducting the

(9) Surplus 4,692,174 \times 11.5 = 53,960,000 (*vide* part I and note).

10) (Deficit 4,330,645 \times 11.5 = 49,802,413.

whole of the cash in hand, miscalled reserve fund, there is a net liability to be provided for of 50,000,000 yen. Applying the balance in the treasury to the purposes to which it must eventually be applied, the *surplus* is gone, as though it never had an existence; and in its place is a deficit which forms part of the national debt at this moment.

PAPER CURRENCY.

The gross sum of currency is set down at 108,680,000 Gross sum of paper money. of which 22,910,000 is a liability incurred prior to the formation of, but taken over by, the present government; the total issue by the latter having been 100,320,000 reduced by sundry withdrawals explained in the "General view" to 85,779,000. The statements before given only How reduced. account specifically for the item of 7,420,000 in 1878-79, as withdrawn from circulation; but a further large sum was withdrawn in 1879-80, an account not yet ascertained; and it is probable the smaller sums mentioned are included under different headings in the earlier years. The origin and rise of the currency are sufficiently explained; what we have to deal with is the sum said to be afloat, and its extraordinary depreciation in relation to that sum. "The reserve fund," said H. E. Its depreciation. OKUMA to Mr. MOUNSEY, "is requisite to prevent the depreciation of the paper currency and other government bonds With the aid of his reserve fund the finance minister hopes to maintain the price of the bonds at a fair level, and thus benefit both their holders and the treasury." (11) In the "General view" the surpluses are said to have "been transferred to the reserve fund, in accordance with the established regulations, to form a fund for the redemption of the national debt." (12) Object of the reserve fund. If Those objects never carried out. these are the objects of the reserve fund, or, as we must call it, the cash balance, being maintained at so high a figure, how does it come to pass that year by year the sum has been augmented and no portion applied to remedy those evils which have arisen and are daily growing worse of depreciated "currency and other government bonds?"

At the close of the fiscal year 1876-77, the Satsuma Cost of the Satsuma rebellion. rebellion was in progress. The cost was not, at that

(11) *Vide* Mr. Mounsey's report on the finances, January 31, 1878.

(12) *Vide General View*, part I.

time, deemed likely to be so heavy as it eventually proved, and we may reasonably assume that the first series of expenses were disbursed out of the ordinary funds in the treasury, the balance of which on June 30th, 1877, was 47,360,000 yen, a portion of which, at least, must have been in paper. The "General view" states that "The revenue of 1877-78 was 52,440,000 yen and the ordinary expenditure 48,580,000 yen giving a surplus of 3,910,000 yen, but the charges for the suppression of the rebellion reached the enormous figure of 41,560,000 yen, and thus a further issue of paper money became imperative."

How provided
for.

Fresh issue of
paper and new
loan.

When 20,000,000 had been disbursed from the treasury, and the expenditure showed no sign of diminution, we can understand the anxiety of the finance minister in reference to future provision for a war of uncertain duration; but we cannot so readily understand why the "reserve fund" was permitted to remain intact while the expenses were defrayed by an issue of 27,000,000 paper and a loan of 15,000,000, a total sum in excess of the ascertained cost of the war; nor why, with 50,000,000 in the treasury, it became imperative to incur fresh debt. No explanation of a satisfactory character is given in the "General view"; and the only other reference we can find to the rebellion charges is the following; a statement made by H. E. OKUMA to Mr. Mounsey and embodied by the latter in a report to H. B. M. government:—

Explanation
made to H.B.M.
secretary of
legation.

The minister of finance then refers to the insurrection. He states that in its first stage he had hoped to cover the expenditure likely to be incurred by its suppression by drawing on the reserve fund and certain sums intended for other purposes and not yet expended, but that he was obliged to abandon this plan when he found that the expenditure in question amounted to 42,000,000 yen. To meet this sudden and heavy call on the treasury there appears to have been only one course open to him since a loan of the above amount could not have been floated in the country, and increased taxation to the same extent was out of the question. A new issue of 27,000,000 yen of paper money was consequently decided upon, and with this and a temporary loan of 15,000,000 yen from what is called the Fifteenth or Nobles' Bank, the expenses of the war are, I understand, to be paid.⁽¹⁸⁾

(18) *Vide* Mr. Mounsey's Report of January 31st, 1878, and "The Kuasoku Bank," ante page 9.

If the cost of the war had been defrayed out of the current moneys until the finance minister found the expenditure amounted to 42,000,000 yen, the larger portion of the expenses must have been, in the first instance, paid out of the current moneys; for the gross expenditure was not, and could not have been, ascertained until the termination of the war. We are in a manner forced to the conclusion that the issue of paper, if not made by degrees during the war, was, with the loan of 15,000,000 yen, made to restore the "reserve fund;" an unintelligible proceeding. The loan of 15,000,000 was a portion of the sums payable to the kwazoku on account of their pensions, a fund which was applied by the government to meet the expenses of the war, and made to form a subsequent liability to the Fifteenth Bank at 5 per cent. annual interest. Some fuller explanation than any yet given is requisite to a thorough understanding of the necessity which rendered the issue of 27,000,000 of paper imperative, for in the same report as that from which we have quoted we find the minister of finance informing Mr. MOUNSEY that:—

Cost in first case paid out of treasury funds or balances.

Paper issue and loan made to restore treasury balance.

Otherwise use of reserve fund obscure.

He has not expended these balances because he considers it of great importance that the government should have a large and permanent reserve fund at their disposal. Japan, he says, is not a country from which the government can always count on readily obtaining money, either by loan or increased taxation, and its rulers must consequently be provided with other means of meeting sudden and extraordinary emergencies, such as the late Satsuma rebellion.

The "reserve fund" apparently has never been applied to any one of the objects H. E. OKUMA has repeatedly declared it to be intended for; namely, sudden and extraordinary emergencies, such as the late Satsuma rebellion; and to prevent the depreciation of paper currency and other government bonds. Recently, H. E. OKUMA stated that a sum of twelve millions in paper had been withdrawn from circulation during the past two years, and an equal sum in specie drawn from the "reserve fund" placed on the market. This should have reduced the reserve fund which, on the contrary, is increased. No explanation is given of this interesting matter; and as two distinct versions have been put forward by H. E. OKUMA we confess our inability to decide which is the correct one. We quote them both, and leave the public to decide for themselves.

Never applied to objects for which it is expressly kept up.

Elasticity of the reserve fund.

Two versions of one operation.

Redemption of
currency.

The sum of paper in circulation, and its reduction, are shown in the financial statements.

In 1878-79 it stood at	Yen 120,927,209
„ 1880-81 „ „ „	108,683,204

Diminution	Yen 12,244,005
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This is the sum no doubt alluded to by H. E. OKUMA in his communication to Mr. KENNEDY on the 2nd December 1880, as withdrawn with *an equal sum in specie*. The statement for 1879-80 accounts for a decrease in paper of 7,499,217 yen in these words:—

Explanations
in financial
reports.

In brief explanation of the manner in which funds have been obtained for this redemption in 1878, I beg to state that the balances of the years 1876 and 1877 and of the appropriation for the war [in Kinshiu], the amount of paper money for the redemption of which provision was made in the estimate for the financial year 1878 and part of the fund for the redemption of voluntary capitalized pension bonds which was converted to this purpose, sum up to 5,777,741 yen; and a further sum of 1,388,144 yen has been appropriated from the reserve fund. . . . In addition to the 7,000,000 odd which are paid off as above stated, there is a further amount of 333,031 yen which comes under the heading of 'Disappeared from the paper money in circulation' in consequence of the investigation into the calling-in of the paper currency of the daimiates, council of state and ministries having been completed.

The statement from which the above quotation is taken, is dated June 26th, 1879, and is signed "OKUMA SHIGENOBU, minister of finance." The next statement from which we quote, is dated August 30th, 1880. It is said to have been prepared by the minister of finance [H. E. SANO], and to have been submitted to the college of finance auditors. Therein we find;—

The total decrease in the amount of paper currency which forms a part of the domestic debt, is 4,744,788, of which 2,000,000 yen have been extinguished in accordance with the special provisions for the diminution of debt, while 2,730,000 have been converted into 'bonds in exchange for kinsatsu' on the application of holders, and destroyed, while the balance, in round numbers 14,000 yen, was found to have been lost in making up the accounts of the conversion.

Now here are two distinct and different versions of redemption. H.E. OKUMA informed Mr. KENNEDY "that during the past two years the Japanese government had destroyed paper money to the amount of twelve millions and had placed an equal sum in specie on the market; that these operations involved an exhausting drain on the government silver resources," and that the specie reserve had been reduced (presumably in large part by the redemption of currency) from thirty millions to twelve millions of yen. The finance statements show the reduction of currency to have been carried out by:—

Surplus revenue, which means paper withdrawn from circulation and destroyed; and appropriation from the fund for redemption of pension bonds.	Yen 7,777,741
Exchanged for bonds	2,730,000
Lost in circulation... ..	348,119
Appropriation from reserve fund... ..	1,888,145
	<hr/>
	12,244,005

There are many reasons for taking the issue of the 27,000,000 extra, at the close of the rebellion, as the first cause of depreciation, which commenced in the year 1877-78. Previous to that the sum afloat was not in excess of trade wants. Experience had proved this; and all the authorities are very clear on the circulation of paper currency at par with the money it represents, provided the conditions which govern all currency are not disregarded. We quote:—

Reasons for taking the issue of paper in 1877 as the first cause of depreciation.

The inconvertible note is a bad tool. . . . We have seen that the guarantee furnished by coin is the value of the metal of which it is made. Further we know that men will give away their goods on credit, relying on payment on a future day; in fact, they take a debt as a guarantee of future payment. The same motive persuades them to accept the debt expressed on a bank note. That motive acts on all other sellers, and thus the bank note circulates as currency, and is not presented for payment, if wanted for circulating use. Then we have seen that the public makes no other use of the metal of coin than as a guarantee of value. Similarly it employs the debt pledged in the note for the same identical purpose of guarantee. It does not seek to sell the gold of the coin to a jeweller, nor to ask payment for the debt, so long as it thinks that debt trustworthy.

Bonamy Price.

This explanation is necessary in order to arrive at a right understanding of the fact, that the inconvertible note, in spite of the hollow principle on which it stands, can, under a special condition, do good work as currency. When the debt is thoroughly trusted, and when no more of these inconvertible notes are issued than the public requires for actual use, and consequently which it feels no desire to send in for payment, they remain in circulation on a full level of value with coin. Thus it happened that after the passing of the act of parliament which forbade the Bank of England to pay its notes in coin, those notes suffered no depreciation. The Bank was perfectly trusted as a debtor, there was no excess of issue, and the notes retained their full value of twenty shillings undiminished. But the situation became vitiated at its very core when too many notes were issued. Their fall of value went on to the extent that a sovereign became worth twenty-seven shillings in notes. Thus one hundred sovereigns were worth one hundred and thirty-five one pound notes . . .

If the government make their notes convertible, by giving money for as many notes as are presented for payment, then the nation suffers no loss. The notes remaining out in circulation have indeed been paid for with goods supplied, but they are currency wanted and at work; and they cost the public no more than what must have been otherwise given to miners for the gold currency whose place the notes have taken. But the case is entirely different if the notes are inconvertible, and are issued in excess beyond the wants of the public. That excess depreciates their value. (*Bonamy Price, on Paper Currency.*)

* * * * *

Perry.

There never has been a government yet, of the many which have issued irredeemable paper, which had the wisdom, and the firmness to resist, *for any great length of time*, the temptation to emit large quantities. (*Perry.*)

* * * * *

Jevons.

A further objection to a paper money inconvertible into coin is that it cannot be varied in quantity by the natural action of trade. No one can export it or import it like coin, and no one but the government or banks authorized by government can issue or cancel it. Hence if trade becomes brisk, nothing but a decree of the Government can supply the requisite increase of circulating medium, and if this be put afloat and trade relapse into dullness, the currency becomes redundant and falls in value. Now, even the best informed government department cannot be trusted to judge wisely

and impartially when more money is wanted. Currency must be supplied, like all other commodities, according to the free action of the laws of supply and demand. (*Jevons*.)

We have always proceeded upon the assumption that the primary cause of depreciation in Japan was excessive issue ; although we readily confess the difficulty of supporting this contention with evidence. The proofs at our disposal are completely subversive of this theory, for when the emission of paper had reached its maximum its depreciation was infinitely less than that which followed its diminution. A recent contributor to this journal, a gentleman of long experience and accurate observation, denies the applicability of the excessive issue theory to the currency of this country. He says :—

Erroneousness of theory of excessive issue applied to Japan.

True cause of depreciation.

They argue that, since the currency is not excessive, it must be good, and would prove so but for adverse external influences, chief among which is a so-called unfavourable 'balance of trade.'

Now I venture to maintain that the depreciation of the Japanese paper currency is due wholly and solely to its inferior quality, and not in the least to its exceeding quantity ; and that all explanations of that depreciation founded on any other considerations are erroneous and misleading. The attempts lately made to improve its value by reducing its volume have, it is well known, completely failed. (*Vide correspondence of the Japan Gazette. T. W. February 14th, 1881.*)

The fact that a declared maximum issue was sustained at a comparatively small discount, the reduction of principal being followed by increasing depreciation of the residue, strongly supports the opinion of the last quoted writer. Still there is abundant evidence that inconvertible paper or a debased currency can be made to do good work provided,—

Opinion supported by facts.

. . . that the popular distrust or dislike of the money be not excited to the extent of driving the people down to barter, in which case an amount of money, whether of paper or of debased coin, not in excess of the amount of a money of full value which would freely circulate, may become redundant, whereupon depreciation will follow. (*Professor Walker. Theory of Inconvertible Paper.*)

The financial statements permit the compilation of the following comparative table.

Comparative table of issue

and reserve.

PERIOD.	TOTAL ISSUE.	RESERVE FUND.	PERCENTAGE OF RESERVE.	OR NET ISSUE.	RULING EX-CHANGE.
1875-76	94,803,819	24,416,257	25.7	70,387,562	101
1876-77	94,054,731	28,341,416	30.1	65,713,315	99
1877-78	121,054,731	39,031,538	32.4	82,023,193	105
1878-79	120,927,209	51,266,981	42.4	68,660,228	118
1879-80	118,427,992	50,898,871	44.9	62,529,121	135
1880-81	108,633,203	51,325,515	47.2	57,357,688	161

Proportion of specie held in reserve.

Net issue.

What the country has supported and now supports.

Unwarrantable assumption of over-issue.

Express denial thereof.

Justifiable conclusion.

A positive statement respecting the proportions of specie and currency in the treasury was recently made to Mr. KENNEDY, H. B. M. *Charge d'Affaires*, by H. E. OKUMA, from which we learn that the reserve consisted of twelve millions in specie and about thirty millions in paper, the remainder being advances made to various persons. This gives a net issue of 78,683,000 of paper (treating the reserve fund as money withdrawn from circulation), against which there is a specie reserve of 15.2 per cent. only; and this may be considered the position at the present time when the nominal exchange is 180 without buyers. The country has, therefore, supported at a small discount 121 millions, the "reserve," assuming it to be all specie, not exceeding 32 per cent. Or it has sustained a net issue of 82,000,000 at a marketable value of 78,000,000 in silver. Three years later, an issue of 78 millions of paper only possesses a marketable value of 48,000,000 in silver. To assume that quantity not quality is the cause of this depreciation would be to insinuate that further issues not noted have been made; an utterly unwarrantable assumption in face of H. E. OKUMA's positive declaration in the following terms:—

Though the government under the pressure of unavoidable emergencies has for the moment issued fresh paper, it has always applied itself, the emergency once passed, to reducing the amount again, and that it has never made an addition to the currency for the purpose of meeting its ordinary requirements.

The justifiable conclusion therefore is, that the depreciation of currency is due "wholly and solely to its

inferior quality;" and that there can be no limit to the depreciation unless measures are adopted to restore public confidence.

NATIONAL BANKS.

The preceding review has served to show by means of a comparative table of figures derived from the "General view" itself, that, while the amount of government notes in circulation had been steadily reduced during the last four years (namely, from 121,054,731 yen to 108,683,203 yen), and the reserve held against those notes had been steadily increased during the same years (namely, from 32.4 per cent. to 47.2 per cent.), yet the current value of the notes had, with equal steadiness, and during the same four years, fallen from 99 paper for 100 silver, to 161 paper for 100 silver; and our daily exchange reports show that the decline has been continued till now 180 paper only represent 100 silver yen.

The anomalous character of these facts, when considered in their relation to each other, must strike every observer, and the question naturally arises;—What is the explanation of this very singular state of things?

We find no answer to this question in H. E. OKUMA'S observations, and, indeed, no indication that it has ever occupied his attention. Yet the answer, if found, would clearly be the key to the whole financial problem; and whoever desires to comprehend the real condition of things in Japan must first find it.

Groping for it among his excellency's somewhat perplexing array of figures we think we touch it in considering the operations of the NATIONAL BANKS, and, therefore, we now invite attention to that portion of his excellency's "General view."

According to official figures there existed in December 1880, one hundred and fifty-two of these banks with an aggregate capital of 41,921,100 yen, their note issues amounting to 34,500,000 yen. Of these one hundred and fifty-two banks, five with 2,550,000 yen capital were established before the year 1877; twenty-three with 20,606,100 yen capital during 1877; ninety-eight with 14,125,000 yen capital during 1878; and twenty-six with 4,840,100 yen capital during 1879 and 1880.

Steadiness of depreciation.

Anomaly.

Solution of the problem is the key to the position.

Number of banks, capital, &c.

Reasons for
their creation
given by H. E.
Okuma.

First reason
untenable.

H. E. OKUMA gives two principal reasons for the creation of these banks. 1. That on the restoration of the MIKADO's power in 1868, there was such a deficiency of "circulating capital" that it was necessary to establish banks "to facilitate the circulation of money." 2. That it was important to find profitable occupation for the disbanded military class, and hence they were encouraged to enter the business of banking on the basis of the public debt (pension?) bonds which had been given to them in liquidation of their feudal claims. With all respect for H. E. OKUMA we are obliged to declare positively that the first reason is without any foundation in fact. That the national treasury was empty on the restoration of the MIKADO's supreme authority, may, so far as this argument is concerned, be admitted. If the SHOGUN's government had exhausted it, and the new régime had yet to devise means to refill it, the position was very embarrassing and should be taken in extenuation of even such questionable measures for raising money as debasing the coinage, and forcing irredeemable paper money into circulation, both of which measures were resorted to. But the emptiness of the imperial treasury by no means implies that money was scarce among the people. H. E. OKUMA appears to conclude that it does so, but to our view it implies exactly the contrary; for the money which had disappeared from the treasury must have gone into the hands of the people, who had, therefore, *more* money, not *less*. The only circumstance which could reduce the money in the country would have been an export of money. But this had not occurred. On the contrary, from 1860 to 1868 there were steady importations of silver, which trade statistics show must have aggregated over 30,000,000 dollars, a sum necessarily *added* to that previously in circulation. It is consequently unquestionable that at the Restoration, and for some time afterwards, there was a very unusual abundance of money in circulation in Japan, and we are amazed that so intelligent a minister as H. E. OKUMA should ignore so evident a fact, and allege its very opposite as a reason for creating the national banks.

Reason good in
1868, bad in
1877.

Another point bearing upon this matter is, that even granting the scarcity of money in 1868, the issue by government of one hundred million yen in kinsatsu up to 1877, when the banks were formed for the first time

in numbers, destroyed the reason which might, under the conditions stated, have had force in 1868.

Even if money had been so scarce among the people as his excellency supposes, how could banks increase it? Banks cannot increase money. The function of a bank is merely to gather and distribute money; and, so far as the national banks fulfilled this function, they may have "facilitated the circulation." But that was all they could possibly do with any advantage to the country. To create money is not in the power of any bank. Bank notes may be called "money;" but if banks may create money by signing notes, what natural reason exists against every man in the community doing the same thing, and so quickly making "money" as plenty and cheap as paper?

His excellency, however, gives a second and stronger reason for the establishment of the national banks; namely, that they were to furnish a livelihood for the military classes whom the Restoration threw out of employment. We must confess that this reason strikes us as exceedingly *naïve*. Probably nowhere in this world but in Japan would unemployed military men be considered as specially qualified for the business of banking. Still, this is the only reason of the two which H. E. OKUMA gives that will at all hold water, and therefore we treat it seriously, and have no doubt it was the real reason. Let us see now how these military financiers have employed their privileges.

H. E. OKUMA says that out of one hundred and fifty-two banks which have been established, those dating from before 1875, four in number, originated with the ordinary mercantile class. The other one hundred and forty-eight were chiefly established by the military class. Now it is notorious that the exchanges and ordinary banking business of the country are conducted exclusively by the small number of banks which originated with the mercantile class. Some inquisitive people have questioned whether even these busy banks are quite as sound in their operations, or as well supervised, as they might be; but no one questions that they practically monopolize all the genuine banking business of the country. What, then, is the function of the one hundred and forty odd military banks, and how do their idle proprietors gain the livelihood which it was the object of the government to provide for them? The answer is to be found in the figures of the notes issued by these banks.

Probable real reason for establishment.

Mercantile and military banks.

Real banking confined to mercantile banks.

Functions of the 'military' banks.

These notes amount to some 32,000,000 yen which have been forced into circulation by means of the following methods:—1. By being made legal tender for all debts. 2. By a law, embodied in article 50 of the regulations for the national banks of Japan, that all who refuse to take them may be punished. The banks issuing them get interest on their deposit of government bonds against these notes, and, presumably, get interest also on the notes which they lend to the public; and this double interest is supposed to afford them the livelihood of which H. E. OKUMA speaks. Possibly it does so, and the military gentlemen are therewith content and do not care to seek other profits or other business. Possibly, also, the safe guards and official supervision provided for in the bank regulations, are, in fact, more rigorously applied than they are generally believed to be, and the notes are as good as those who have been compelled to receive them could wish. There is a prevalent impression amounting almost to conviction that neither of these possibilities would bear investigation; but we will assume them to be facts, and ask only what is the natural result of letting loose on such a country as Japan, within two or three years, a flood of 32,000,000 of private bank notes having no other capital than pension bonds behind them? In the first place, the bankers must have made considerable exertion, and taken considerable risk to get the notes into circulation at all. The people, though forbidden to refuse them, were probably nevertheless not eager to take them in exchange for their labour or their products. There could hardly have been any general or enthusiastic confidence, even in this country, in the ability of military gentlemen to manage banking affairs well and wisely. There must have been more or less reluctance to trust the notes. To overcome this reluctance must have greatly taxed the ingenuity and cleverness of the gallant bankers. Hence speculations were set on foot which would not have been thought of if real money had been necessary to start them. People totally unfit for serious business were encouraged to operate, and to-day the country is full of schemers who think they have at last discovered how to make something out of nothing: full of gambling in articles of merchandize: full of speculators and swindlers who live by their wits instead of by honest industry: and full of poverty and distress among their victims.

Notes enforced
as tenders.

Double interest.

Supervision is
lax.

Emission of
32,000,000 yen
notes.

Speculation
encouraged.
Gambling
induced.

H. E. OKUMA says the establishment of banks has "imparted great energy to commercial transactions and profitable enterprises," while it has aided the military class to gain a livelihood; but we think it very questionable if this energy has resulted as happily as he imagines; or if the profit has been fairly distributed. The bank notes so issued must stay out to do the military bankers any good. If the issuers had to redeem many of them, holding kinsatsu for that purpose, their profit as bankers would be gone, and they might as well have remained in the position of idlers living on the interest of their pension bonds. Those who held the notes have undoubtedly had to recognize this feature of the situation, and have perhaps not dared to be very exacting with the military gentlemen. Their safer and easier course was to pass the notes on at some little loss; and this is what they have undoubtedly done. Hence the gradual depreciation of the bank notes. Then these bank notes are declared by the government equal to their own kinsatsu. Hence, therefore, a general depreciation of all paper money, and lo! we have the key which we sought, and perceive that these national banks which H. E. OKUMA regards as both useful to the country and particularly beneficial to the military class, are responsible for the fact that kinsatsu which, four years ago were at par, are now, although their amount has been reduced, at 45 per cent. discount in silver.

Questionable benefits.

Origin of depreciation of bank notes.

Bank notes equivalent to government paper.

Bank notes responsible for depreciation of all paper.

The problem solved.

Unsound principles of the banks.

United States.

The conclusion that this is the solution of the problem is to our mind quite clear; and it is plain that H. E. OKUMA, in taking his rose-coloured views of national finance, has overlooked an explanation of one of his difficulties which is obvious to the humblest capacity.

We have not touched on the particular vices of the national banks, but we are not ignorant of the unsound principles on which many, probably most, of them have been established. They were contrived upon the model of the national banks created in America during the civil war; and it was possibly expected that some resemblance to those institutions might enable them to serve in Japan an equally useful purpose. But the conditions in the two countries were vastly different. The Americans governed themselves: they knew how, and meant, to pay their debts: they were familiar with banking: and they wanted the facilities and security which their national banks offered. Moreover, they never dreamed of

Banks not
wanted in
Japan.

establishing banks for the benefit of a military class who could not otherwise gain a livelihood, but insisted, instead, on having their banks managed by men of business—and the very best sort of men of business. In Japan the banks were not wanted. They not only did not facilitate legitimate commerce, but they degraded and hindered it by promoting the wildest undertakings. The managers had only their own interest, not that of the public, in view; and few of them had any qualification whatever for banking business. Again, the whole system was so faulty that in its operation it plundered the people whom it professed to assist. For what else could result from a law which allowed any one who held, or could buy, a few pension bonds at a low price, to establish a bank and at once force upon the public notes to a larger amount than that which he had paid for the bonds? So far as this was done (and we understand that many so-called banks in Japan had no other *raison d'être*), it was as much a robbery of the people as were those debasements of the coinage under the old *régime*, to which we lately called attention.

Futility of try-
ing to introduce
western customs
to Japan.

In short, the national banking system of Japan is but another example of the futility of trying to transfer western growths to an oriental habitat. In this part of the world principles established and recognized in the west appear to lose whatever virtue and vitality they originally possessed, and to tend fatally towards weediness and corruption; and we are convinced that whenever the national banks of Japan come to be thoroughly investigated they will afford a striking example of this tendency. Meanwhile, we discharge our duty in demonstrating that one need not look beyond the history and performances of these banks to discover why paper money has so greatly depreciated within the last four years, and why business in general is now in so disordered a condition in this empire.

Active causes of
the state of
currency and
trade.

So long as honourable and patriotic men like H. E. OKUMA can think it proper to sacrifice the general public to the interests of a military class who want to live without labour: so long as any class of subjects enjoys special favour at the general expense: so long as industrious producers and distributors are regarded with disdain by those who accidentally rank above them: so long as a few men in office are supposed to be so different from all other men that they alone can wisely guide

this nation, so long will PROGRESS in Japan be a mere pretence; real improvement impossible; and we shall have, from day to day, to expose such wretched mockeries of civilization, such rotten imitations of western institutions, such burdens upon industry, as many of the national banks unquestionably are at this moment.

THE *Japan Herald* had previously, namely on the 2nd and 9th April, criticised the pamphlet issued by H. E. Okuma in the following articles:—

THIRTEEN YEARS OF JAPANESE FINANCE.

April 2nd, 1881.

H. E. Okuma Shigenobu, who for so many years Useful character of the work. past, as a member of the Government, had had charge of the Department of the Treasury, has performed a public service by the preparation and publication of his "General View of Financial Policy" which has prevailed during the thirteen years that have elapsed since the Restoration. Whatever may have been the motive actuating Mr. Okuma to undertake so arduous a task as the compilation of the review in question,—whether as the prelude to asking for a foreign loan, as the vindication of his own policy, or to exhibit to the world at one view a synopsis of the taxes, the resources, and the indebtedness of Japan,—the work has been well done. In a clear, succinct, able, and seemingly trustworthy manner, the entire scheme of taxation, what the country owes, what are its assets, its revenues, and its expenditures, have been laid bare to view; and in such a manner as to justify a rational confidence in the financial future of the Mikado's Empire, should prudence continue to guide the counsels of his advisers, and the country be spared the evils of foreign or domestic war, or bad harvests for a succession of years.

Mr. Okuma alludes with justifiable pride to the What it shows. great reforms which the Government,—of which he is generally regarded as one of the most trusted and ablest members,—has effected, and after enumerating the more important of them, he concludes by observing that the financial condition of the country is "not a bad result after all." The public debt is shown to be not overwhelming, and is in process of reduction; the taxation

of the country has been simplified, and in some respects lightened,—yet it year by year yields more to the Treasury. The national wealth is increasing, the nation consumes more, and it produces more than it did; it buys more and it sells more than formerly; wages are rising, property is increasing in value, and were it not for the evils that an inconvertible and depreciated currency invariably entails, the outlook for Japan cannot be regarded, even by those disposed to take a rather gloomy view of the future, as being without some show of hopeful brightness. A Government that resolves to spend less than it receives,—should no great disturbing and unlooked-for circumstances happen,—must in the end get out of debt, or eventually find itself in the enviable position of being able to reduce the public burthens, or to incur such expenditures for roads, railways, canals, or other public works, as the convenience or interest of the country requires.

The arrangement.

The "General View" of Mr. Okuma will well repay perusal, even by those unversed in the intricacies of national finance. It is divided into sections, and each subject under a special heading is separately dealt with. Thus the first chapter is devoted to "Revenue and Expenditure;" the next to "Paper Currency;" then follow "The National Debt," "Banks," "Taxation," "Government Assets," with a final chapter on "The Condition of the Country." The two last-named ones are rather imperfect in their details, and in some respects not so satisfactory as they might have been made.

Surplus of
53,520,000 yen.

Reserve is in
large part in
paper money.

Events which
led to the issue
of currency.

Commencing with the subject of national income and expenditure, the gross totals of each are given from 1868 to 1879 (inclusive). Every year during that period—with the exceptions of 1872 and 1874—is credited with a surplus, the gross aggregate of which in 11½ years is shown to amount to yen 53,520,000, and it is this sum which mainly constitutes the reserve towards the ultimate redemption of the public debt, but unless we are in error, much of the reserve is simple debt itself: *i.e.* paper money, and not, as it should be, bullion or specie. A reference to the report on the final accounts for 1868 to the first half of 1875 shows, however, that for every year during that period there was a deficiency more or less great, which had to be met by an emission of paper money. The extraordinary ex-

penses which caused the excess were grants in lieu of pensions, the Shimonoseki indemnity, the Saga insurrection, and that expensive fiasco, the Formosan Expedition. These altogether came to upwards of twelve millions of *yen*. To this must be added in 1877 the cost of suppressing the formidable Satsuma rebellion, which exceeded forty millions more.

With respect to the paper currency, for the reasons pointed out by Mr. Okuma, the new Government had no option, in order to maintain its existence and carry out its projects of reform, but to resort to the issue of paper money. Unfortunately the limits at which the inconvertible *kinsatsu* could be maintained in circulation at par, have been so far exceeded that a decline to a discount of cent. per cent. seems in the estimation of many not unlikely to be realized in the near future.

Issue of currency was imperative.

To-day, as the exchange tables record, 100 silver *yen* will purchase 182 in paper. The general advance in prices of all commodities, whereby a larger volume of paper is required for the daily transactions of life, to some extent stays the downward tendency. The conversion of the floating debt into an interest-bearing and terminable one, by the issue of bonds to the extent to which they are subscribed for, is a move in the right direction, and the redemption year by year, by extinction,—in accordance with the scheme adopted by the Treasury—of a certain amount of paper money, will, if honestly persevered in, and any additional issue of *satsu* be entirely foregone, in process of time, by constantly withdrawing the surplus from circulation, bring the remainder to par. We do not attribute the impaired value of *satsu* to any want of confidence on the part of the Japanese people in their Government, which, all things considered, is probably as good as any they are likely to obtain, but the issues—owing to the causes mentioned by Mr. Okuma—have been excessive, which leads to the result that, when real money is required for the purchase of imports, the competition amongst the possessors of *satsu* is so great that they bid one against the other until they succeed in getting hold of as many dollars as they require, but at the expense of having to part with more and more of their fictitious money. A knowledge of the quotations of the unfavourable rates of exchange prevailing in Yokohama, Osaka, and other centres of commercial activity becomes gradually diffused in the

Depreciation of currency.

Value may be restored.

Depreciation due to excessive issue not to want of confidence.

interior, and has a tendency to teach the people that the paper money of their government is of a less value than its face represents, and their confidence in its exchangeable value becomes, in this way, impaired. A dread of a further and indefinite fall in value probably leads to the efflux of bullion and specie to redress the foreign exchanges—which are generally against Japan,—accounts for the disappearance of most of the gold and silver from circulation.

National debt.

50,000,000 only incurred by the present government.

Candid exposition of policy will facilitate a foreign loan.

The National Debt, according to Mr. Okuma, reached in 1880, in the aggregate, nearly 958,000,000 *yen*, which, deducting the reserve, leaves the debt at about 300,000,000, of which he claims that a portion only, less than fifty millions, has actually been incurred by the present government,—notwithstanding all the expensive innovations it has introduced; the rebellions against its authority which it has suppressed; and its raid upon Formosa. Taking into consideration what it has actually done, and what it has attempted, extravagance can scarcely be laid to its charge: the wonder being that it is not more in debt than it actually is. To meet its maturing liabilities which have to be paid in gold, another foreign loan will, sooner or later, have to be had recourse to. Mr. Okuma's candid exposition of the financial policy of the Government is calculated to make a favorable impression abroad, and will make the transaction easier than it might otherwise have proved to be.

National banks.

Their influence on the currency.

The chapter giving reasons for, and detailing the history of the formation of the National Banks is not altogether satisfactory. These institutions are no doubt of service in affording facilities to trade, and have—by furnishing employment for the *samurai* pension bonds,—as the basis of the note circulation of the Banks thus called into existence,—prevented them from becoming nearly unsaleable, but the extra inconvertible paper money which they have foisted into circulation, coupled with the issue of notes for state emergencies, has had the very disastrous effect of most seriously depreciating the currency, and this must be regarded as a set off against whatever of value the creation of these banks has yielded to the public. The holders of bonds have received interest from the State, whilst, on the other, by loaning the notes which they were empowered to issue by virtue of the bonds deposited with the Government,

they have earned a profit on them. Those who sold their bonds of course secured, by reason of these arrangements, a much higher price than they would have done under other circumstances.

What Mr. Okuma tells us about the taxation of the people is interesting. The abolition of a number of petty imposts which, probably, were nearly eaten up by the cost of collection, was a wise step. The total sum which the Government received from all sources during the financial year 1879-80 was 54,550,000 *yen*, of which the land revenue amounted to no less than 41,900,000 *yen*. Now the latter sum can, in reality, only be regarded as rent payable under the perpetual lease-holds under which natives and foreigners alike hold lands from the Government. Now by calling the so-called land tax by its right name,—land rent,—we are brought face to face with the fact that owing to the Sovereign being regarded as the lord of the soil, only about one-fifth of the income of the State is actually derived from taxation; which demonstrates the general poverty of Japan, and the inability of its population to bear taxation. It is worthy of remark that of the total 12 millions so raised, the tax on foreign commerce—the duties of customs—yield, without any further increase, about one-fifth. With respect to the payment for land, the Government may claim credit for the introduction of a more uniform assessment than formerly was possible under the old *régime*. The three per cent. basis on the capitalized value of the land which the Japanese agriculturist has to pay, is less than the English farmer has to give to his landlord, whilst the local taxation in which he is amerced is probably on a much lower scale than the English agriculturist has to submit to. Meanwhile the Government has, in some degree, lowered the rent of land, but it has increased general taxation, to which, of course, the farmer has to contribute his quota. As a rule the Japanese peasant is poor, but this is not so much owing to the price he has to pay the state for his holdings but to the fact of their being so miserably small, to the absence of the profits derivable from live-stock, and the lack of capital to furnish himself with manure and the best implements of husbandry. The land under cultivation is not rich, and it is too much subdivided to secure to those who, literally, till it

Taxation.

Land tax is in reality land rent.

Customs duties.

Moderate basis of land rent.

Poverty of the present time and its causes.

by the "sweat of their brow" more than a bare subsistence.

Advantages conferred on the farmers by the government consenting to receive currency in payment of taxes.

When the Government, not foreseeing that its paper money would fall to a discount, consented to receive it from the farmers for rent, in lieu of payment in rice, it unwittingly gave to its native tenants a great advantage, for by selling only a portion of their crops they realize enough in depreciated paper to pay their landlord, who at the same time has got to pay out additional paper, to buy rice, and other supplies required by the army and navy, which it has to feed. The farming class is waxing prosperous, whilst the Government suffers. Moreover, the Government, by losing its hold on the rice crop, lost a source of providing ready money which sales for export would have secured. Too late the Government has discovered its error; but after much consideration it has had to abandon the project of reverting to its former plan of receiving its rents in kind, because likely to arouse the farming class into rebellion.

On the whole a very comprehensive and satisfactory document.

The chapter on "Government Assets" and the "Condition of the Country"—which are, in some particulars, rather weak,—we reserve for another occasion, as the observations we have made on the preceding subjects treated with so much ability and clearness by Mr. Okuma, fill all the space at our disposal to-day, but we have no hesitation in declaring that the "General View of the Financial Policy" which we have had under review is the most comprehensive and satisfactory document that has ever emanated from the Japanese Bureau of Finance for the information of foreign readers.

April 9th, 1881.

Public curiosity aroused.

The elaborate memorandum on the Financial policy of Japan during the thirteen years that have elapsed since the abolition of the Government of the Shogun, prepared and made public by H. E. Okuma, has been extensively read and studied, more especially just now, when trade is in such an unsatisfactory state,—owing principally to the depreciation in the paper currency,—that it is but natural that considerable curiosity as to the causes of the decline in the Government's credit should exist, coupled with general anxiety on the part

of the commercial classes, foreign and native, who deal in imports, as to the commercial outlook during the course of the present year.

Mr. Okuma's frankness and explicit avowals with regard to the emission of paper money, and the extent and nature of the public debt, have measurably tended to create a feeling of hope, that as the internal tranquillity of the country seems to be assured, the measures of retrenchment in the expenditure of the country, to which the Government has committed itself, stand a reasonable chance of fulfilment. A possible war with China on the paltry Loo Choo issue is the only dark cloud on the horizon; but this, it is to be hoped, time and negotiation on the basis of mutual concession, will dispel. With peace assured, and economy pursued, there is nothing in the condition of the finances to justify the gloomy apprehensions which in some quarters have been expressed. Measured by the heavy indebtedness under which some States have managed to stagger along, the figure cut by Japan is neither appalling nor disheartening, for Mr. Okuma shows that not only is the annual income of the country sufficient for the purposes of Government, but that there is a surplus, which applied as a sinking fund, will not merely retire in less than the life of a single generation the whole of the inconvertible paper currency, but will be sufficient to extinguish every other form of debt included in his financial statement. These are the conclusions which his calculations and arguments reach, and every friend of Japan will trust that the integrity of his figures may prove to be beyond question, and sincerely wish that his hopeful anticipations may be realized. But basing our opinion on what has too frequently occurred elsewhere, with respect to creating sinking funds for the payment of national indebtedness, we have our doubts as to whether, in the course of events, disturbing circumstances of one kind or another will not be sure to supervene to play mischief with the Finance Minister's anticipatory arithmetic. Experience will most likely prove that the result he is solicitous about will only be in part attained, and with that, Japanese financiers of the future will most probably have to be satisfied.

The last section but one of Mr. Okuma's recent review of the finances of the Empire, gives an account of the Government's assets. per contra to its indebtedness, of what he calls "Gov-

Usual course
pursued by
governments.

Imperfect
character of this
statement of
assets.

Assets that
ought to be
considered.

ernment Assets," and the concluding chapter is headed "Condition of the Country." This way of preparing a national statement is not usual, and wears a certain air of simplicity rather calculated to provoke a smile. Governments that publish budgets mostly content themselves by giving a statement of their annual income and expenditure, taking no account, except in those cases in which they purpose to realize, of any of their assets on hand; for apart from its inutility, such a statement, from the nature of the attendant circumstances, must necessarily be extremely incomplete, and can have but little practical bearing on the future. What seems odd is, that Mr. Okuma should speak of "Government assets" as entitled to special mention, as though the particular forms and portions of national property actually in the hands of the Government itself, constitute the assets upon which national credit is based. These are but extremely small and partial elements in a comprehensive survey, which includes factors and resources which are quite outside the Minister's enumeration. Every one knows as matter of fact that this Government has made large expenditures for a variety of public purposes of which the major portion will remain as a permanent inheritance. Railways, Lighthouses, Telegraphs, the Mint, Arsenal, Docks, Public Buildings, Roads, Bridges, Harbour improvements, and other public works, the value of which is perennial. The organization of the departments, and of the whole machinery of Government, and of education, civil, military, and naval, all represent not merely advancement, and more or less of adequate efficiency, but a considerable money value too, measured by what they have cost to bring them to their present standard. If we would make an inquisition into the ability of Japan to pay its way, we must not alone take stock of the comparatively small amount of property in the hands of the Government, and under its immediate control; but we must consider what are the capabilities of its soil, and its mineral wealth, what is the numerical amount of its population, and their general condition, whether wealthy or otherwise,—what the habits of the people, and their capacity for labour, what taxation they can be made to pay, the strength of its Government, the permanence of its institutions, and so forth;—in fact, the country and its people, as a whole, furnish the

only comprehensible and reliable basis on which a rational calculation can be made as to the ability of its Government to meet its present or probable future pecuniary engagements.

It is not a little singular, that whilst Mr. Okuma has been particular to tell us exactly how many trees are to be found growing on the public lands (which nobody can tell), he has omitted to mention the acreage of Japan, the entire fee simple of which is vested in the Sovereign. If a rental assessment of three per cent. upon its capitalized value yields 40,000,000 *yen* per annum, then its worth as an asset reaches 1,320,000,000 *yen*,—provided always that there is a sufficient population to till it, and to pay for and use its products. It is manifest, then, that Mr. Okuma, when he asserted that Japan, according to the comparatively insignificant assets mentioned by him, possessed far more property than would suffice to cover its pecuniary liabilities, unwittingly much understated his case. If it were possible to appraise Japan, and the energies of its people, it would be found that they would probably be worth, at the very least, from ten to twenty times as much as the country owes.

Whilst by no means of opinion that the natural resources of Japan, whether mineral or agricultural, are particularly or noticeably great, or that its population is especially hardworking or prudent, nevertheless, it has the promise of a moderate future before it. Without expecting too much from its Government—for a Government is seldom found to differ widely from the people whose affairs it administers—a condition of moderate affluence and tolerable content is before it. Wealthy we do not at all think it will ever become; the advantages conferred by nature, with the exception of climate, and the love of indolence and pleasure of the people themselves, forbid it. The Japanese are a happy race, and being content with little, are not likely to achieve much. To them, the past is coupled with few regrets, the future has no disquieting solitudes; to make the most of to-day, and to enjoy it to its full, is all that is asked by the great majority.

Opinion is not in favour of great natural resources.

Country may be contented, but is not likely ever to be wealthy.

To Mr. Okuma, and his colleagues, associated with him in the Government, the credit belongs of having, in the exercise of a creditable spirit of imitation, endeavoured to lead the nation forward, in almost every

H.E. Okuma and his colleagues deserve credit.

Belief encouraged that the worst is past; and that all claims will be met.

department, from an unprogressive and inactive past, to become more abreast of the advanced nations of the West. To accomplish this, the prejudices of centuries of seclusion have had to be encountered and to be overcome. The idols of popular belief of the past have been rudely shattered by the march of events. The nation subjected to changes so radical, and so rapid, has had to submit to suffering: that its finances should, by the process, not have been more disordered than Mr. Okuma has told us, is certainly surprising. That the country should have undergone so much, and should have been so little harmed by it, encourages a belief that the worst has been passed, and that the claims of its domestic, as well as its foreign creditors, will ultimately be met. It may require the exercise of some degree of patience before such a consummation can be reached, and it is possible that Mr. Okuma may believe in its possibility sooner than others who take a less hopeful view of the financial situation; but there is nothing in what is at present known to forbid it. What the future has in store no one can forecast with certainty; but it is not to be denied that Mr. Okuma's exposition of the past thirteen years of Japanese finance cannot fail to lead to a better understanding of the subject than was possible before.

CHAPTER IV.

Public attention drawn to depreciation in 1878.

TOWARDS the close of 1878 the decline in value of currency attracted much attention. Fluctuations had, previously to that time, been confined almost solely to the demand for specie or paper caused by the requirements of native traders in their transactions with foreign merchants; but as the national banks increased in number, and notifications were constantly being published authorizing these banks to issue notes, a feeling of alarm gradually spread throughout the better informed classes, which extended, at the end of the year, to all parts of the country and led to the anticipated appreciation of commodities. Journalists and others who endeavoured to

ascertain the cause of depreciation were very much in the dark, little or no information being obtainable from the finance reports annually issued. From such scant means as were at their disposal conclusions were drawn which subsequent knowledge and the course of events seem to justify almost in their entirety; and the following series of articles were written with the view of attracting the attention of the government to the danger of the finance policy then being pursued, and to recommend remedial measures which, practicable at the inception of depreciation, have since become impossible.

NATIONAL BANKS AND PAPER CURRENCY.

Japan Gazette, September 18, 1878.

The announcement recently published and following close upon the financial statement, that nine new banks have been established within six weeks; and the consequent reflection that, if none of the earlier institutions have collapsed or disappeared altogether, there are now in existence one hundred and twenty-nine "national banks," calls for some comment. The official statements show the issue of paper currency on the dates given below, and taking the market values of kinsatsu on those dates we find as follows:—

	<i>Kinsatsu outstanding. or in dollars.</i>		<i>Depreciation.</i>	<i>Depreciation in three years.</i>
1 July 1875.....	94,803,819	91,248,676	3 $\frac{1}{2}$ %	
1 July 1878.....	120,927,209	111,857,668	7 $\frac{1}{2}$ %	
17 Sept. 1878.....	120,927,209	108,834,478	10 %	

If these figures can be relied upon they show that an increased issue of 27.5 per cent. of paper currency caused a decline in value of the whole issue of 3 $\frac{1}{2}$ per cent., equivalent to a discount on the extra sum issued of 17.35 per cent. This depreciation took place in three years, and in the two and one-half months which bring us up to the present date (17th September, 1878) there has been a further decline of 2 $\frac{1}{2}$ per cent. This steady fall is beginning to make itself felt when large transactions are entered into in the country remote from the treaty ports, and grave apprehensions are now entertained as to the probable result of any increase of the sum afloat. It would appear that the point of absorption is passed, and that, as the country can take no

Certainty of no further increase would restore confidence.

more new paper without depreciating the whole issue by at least the equivalent of the extra sum put into circulation, some guaranty is required that the further issue of paper is effectually stopped. If confidence could be felt that the government would put into instant operation very stringent regulations against any increase of paper, there would be sensible relief felt by all classes : but it will be evident to many that if there are to be further public issues there must be further depreciation, which will be sufficiently serious even when the reason is distinctly known ; if, however, the issue is increased privately, secretly, or indirectly, its discovery will result in a crisis little short of disaster.

Is there a limit to the banks' issues?

There is no intention to throw discredit upon any of the banks recently formed, therefore assuming they have the capital notified by the government, the question arises whether all or any of them have the privilege of issuing paper money in proportion to their specie capital. This question naturally follows consideration of the facts that the Nobles' Bank was formed for the purpose of enabling government to *re-issue* fifteen millions of paper, and of a notification recently published, No. 19, by the Okurasho, authorizing the 74th National Bank to issue a *further* amount of paper money ; without specifying what the extent or limit of that issue is to be. We believe it cannot be denied that banks have hitherto had the privilege of issuing paper, and are quite certain the country is under that impression ; it would therefore be judicious in the government to allay the fears of their own countrymen by declaring how much money in paper each bank is allowed to circulate, because the people are beginning to understand that one of the principal causes of the depression of their trade is the steady, but unknown, increase in circulation of a currency destructible but unredeemable.

Information is wanted by the Japanese people.

These questions are not propounded for the purpose of gratifying the curiosity of the world at large, to whom the finance minister's report may be said to be addressed through the medium of the *Daijo Daijin*, but expressly for the satisfaction of the people of Japan who are principally interested. If the government can say that the banks recently formed are not allowed to issue paper money, and have not been chartered for that purpose, a great deal of good will be done by preventing a further decline in the value of *kimsatsu* ; but if the

government cannot, or refuse to make such a declaration, people will consider themselves entitled to persist in their belief that paper money is continually on the increase in proportion to the increase in the extravagant number of national banks already formed.

The financial statement explains that last year's estimates did not accord with the results; the amount of paper money has been increased, and new debts incurred by the government; nevertheless, on comparing this year's report with that of last year, it is clear that the reserve fund in the hands of the government has increased by 15,441,995 yen: and as, during the six months ended 30th June last, the official returns of trade show the export of bullion to have exceeded the import by nearly five million yen, the increase in the reserve can only be in *kinsatsu* or government promissory notes. If this is not so, and the increase of reserve is to be understood to consist of bullion, Japan will then appear before the world as a bullion producing country on a par with California and Australia, a position she has not yet had the hardihood to assume.

There is no hope of this important subject being discussed in Japanese newspapers, the conductors of which seem to avoid all matters of common interest. It is therefore essentially necessary that the government should learn something of the opinions of the people, in order that they may consider the propriety, during the present unhealthy fluctuations of paper currency, of establishing any more so-called "national banks."

Paper money increased; new debts incurred; yet reserve fund grows larger.

Popular opinion.

FINANCE.

Japan Gazette, October 24, 1878.

The great anxiety prevailing in regard to the future of paper currency is likely to be vastly increased by the official notifications of the 23rd October 1878. The acting finance minister has authorized the 39th, 40th, 41st, 104th, and 120th National Banks to issue a further unlimited, even unspecified, sum of paper money to be secured by a reserve of government *satsu* equivalent to the value of the bonds these banks may respectively deposit with the finance department. In any case the probable large increase of a currency long past the

Further issues of bank notes.

Alarming character of

notifications.

point of patient absorption would be matter of serious moment, but at this time when the whole trade of the country is paralysed, and a state of panic may be said to reign, the notifications in question are of an alarming character.

Appreciation of commodities in the interior.

We have distinct and trustworthy information from the country concerning the altered values of government and national bank paper. As might be expected, silk-dealers, growers, and general traders are aware of the depreciation, and in their business transactions now arrange their prices accordingly. The altered values of paper are therefore not confined to the coast ports open to trade, but are felt in all the interior markets. So extraordinarily contradictory are facts in

Notifications are at variance with the action said to be about to be undertaken by government.

the shape of yesterday's notifications, and reports current to-day that, upon grounds of substantial reason, we decline to credit the current rumour that the imperial government are about to decide, or have already decided, to take up a quantity of their own paper money in the hope of arresting the fall which is having at home, and abroad also, such serious effect upon the national credit. It is said that the sum of two millions of yen in specie, to be taken from the treasury reserves, will be expended for this purpose during the next two or three weeks. Should this rumour be correct, and the plan be resorted to, the government will find out to their cost and disappointment that the causes of the discredit into which their finances have fallen lie too deep for any permanent amendment unless a thorough and radical change of fiscal and economic policy is made. The import trade of the country is almost suspended owing to the depreciation in currency: export trade is languishing for it is hampered and impeded by unfair monopolies: distrust is felt because some of the ministers are, we would fain think improperly, believed to be supporters of projects detrimental to the state; and there is a growing fear for the future which would be manifest were it not for the rigorous and repressive laws which silence the native press, and deprive the government of the only source open to them for ascertaining the sense, or feeling the pulse, of the people.

2,000,000 yen in specie to be used to buy up paper.

Change in financial policy only real remedy.

The *Akebono Shinbun* in an article on the 23rd instant says, "Whatever originated the depreciation in paper "it is quite certain that to restore it to its original "value is as difficult a task as to stop a round stone in

Opinion of the *Akebono Shinbun*.

"its rapid descent of a steep mountain : and that if the government will not take decisive measures to grapple with the difficulty there will be no end to the depreciation of paper money until it becomes even beneath the attention of the gatherer of waste and refuse scraps in the streets." This is language very much stronger than any foreign journalist has ever used, but it is truthful and emphatic. Surely the government will not delude themselves into a belief that a "sop to Cerberus" in the shape of a purchase of two million of yen worth of paper currency is, or can in any way be, a decisive measure calculated even to improve temporarily the gloomy outlook. True, the speculators in money may be gratified by a redemption which shall enable them to recover specie even at a heavy loss, for it is now almost a certainty that holders have no chance of realising any quantity of their purchases at the present quotations, but must submit to a much greater discount than $21\frac{1}{2}$ per cent. What is really required to restore confidence in the sincerity of the government is a thorough reversal of all the empirical schemes and unsound financial undertakings which have, during the past five or six years, done so much, perhaps irreparable, injury to this country.

Inadequacy of proposed remedy.

Japan Gazette, October 31, 1878.

A few days since we expressed in this paper the opinion held, we believe, by every foreign banker and merchant in this settlement, that the attempt of the imperial government to improve the value of paper money by forcible measures, or threats that such measures would be adopted, would be utterly futile. For three or four days the nominal market value of *satsu* advanced, and the advance was helped by the considerable amount in dollars paid by foreigners for silk and silk-eggs. On the 30th ultimo the rate was ten per cent. discount; on the 31st at five o'clock it was 14 per cent. discount. The imperial government must learn how vain it is to try to coerce the native traders into putting high valuations on the excessive issue of unsecured paper; for it is plain that the money changers, if worried by official orders and interference, will act as the Osaka and Hakodate merchants act, that

Soundness of earlier opinions.

Coercion vain.

Nothing but reform in the system can stay depreciation.

is, by giving up business altogether. The time is past for expedients of this description; what is wanted is thorough reform in the financial system of the empire, and a radical change in the *personnel* of the spending departments. If this second requirement is disregarded the nation will not place any faith or confidence in the schemes, however sound they may be, of those members of the government who have held office while the nation has been steadily drifting into embarrassment now of an alarming character. Hope that beneficial changes will be commenced is seemingly at an end, and the prevailing belief is, that some of the present *Sangi* are too far committed by expressed opinions, or pronounced views, to the maintenance of the existing order of things, to support, with sincerity or cordiality, any policy having for its chief objects retrenchment, reform, and popular representation.

THE FINANCIAL LESSON.

Tokio Times, November 2, 1878.

Variations in exchange due to efforts of speculators aided by the Yokohama journals.

The correctness of the views maintained in these columns, upon the subject of the national currency of Japan and its relations to Mexican silver, is abundantly confirmed by the tables of exchange published in Yokohama newspapers during the week. From the abnormal rate of twenty per cent. premium, to which the foreign coin was forced by some process unknown, it returned on Monday to the more reasonable figure of ten per cent., and on Thursday stood at fourteen. Whether it will or will not remain at this point is immaterial. The fact that it could not be consistently held up to the exaggerated standard, notwithstanding all the efforts of speculators and the encouragement afforded them by the Yokohama journals, shows that the sudden rise was without any adequate cause, that the ominous predictions based upon it were invalid, and that the Japanese writers who suffered themselves to be led astray by them were simply the victims of a delusion or an imposture. Whatever may happen hereafter, whether Mexicans continue at par or fly up to a hundred, it is to be hoped that those who have to deal with domestic finance will keep in mind this

significant experience, and never again forget that the "depreciation" of a country's currency can be measured only by its connection with the internal transactions of that country, and not by its capacity to purchase foreign specie or foreign wares in which the merest fraction of the populace is concerned.

A few spasmodic attempts have been made by English organs to attribute the returning fluctuation to some mysterious and incomprehensible, if not illegitimate cause. When the price of silver soared to an unusual height, we were assured by these oracles that it was the result of immutable monetary laws, and that no power could arrest the rise without a complete change in existing conditions. Now that it has fallen, the cry of inevitable destiny is suddenly hushed. We hear no more of the financial book of fate, but a new and original theory is invented to meet the exigency. In other words, the sauce that served so daintily for the goose affronts the palate when taken with the gander. It is a poor rule of exchange that will not work both ways, as, we trust, all intelligent Japanese observers have by this time discovered. But, lest any should still be misled, let us examine the novel and remarkable solution of the decline in Mexicans, as expounded by one of its originators. Briefly, it is all the work of government. Orders have gone forth, and the police have warned the money-changers that the rates of exchange must not rise or fall beyond a certain point. There is the whole of it. We will not stop to consider whether those who have put forward this astonishing statement have done so in good faith or not. Undoubtedly it seems incredible that anything so preposterous should be seriously and conscientiously believed in; but the story is before the public, in black and white, and is certainly circulated with the intent to produce some sort of an impression. The government, then, through its agents, has brought down the price of Mexican dollars by "threats addressed to the money-changers." In the first place the money-changers of Yokohama, with very few exceptions, are all Chinese, over whom this government has no power; but, waiving that particular for the sake of further investigation, we will consider what the authorities are supposed to desire, and how they are understood to carry out their wishes. It is taken for granted that they are anxious to see the difference between Mexican

Erroneous reflections concerning depreciation.

Official interference with money changers.

Statement preposterous.

Money changers are Chinese.

dollars and *kin satsu* reduced. To effect this, what must be the nature of their instructions to native money-changers? Shall they tell them to sell Mexicans at the rate of one hundred and ten yen for one hundred dollars, and no higher? They may tell them so to all eternity, but unless the foreign holders of Mexicans choose to part with them at that price, or lower, the money-changers cannot execute the decree. It is a flat impossibility. Shall they tell them not to give, in buying, more than one hundred and ten yen for one hundred dollars? That is just what they would not do, if they could help it, under any circumstances. It needs no government admonition to keep them from throwing their money into the pocket of the first comer. In plain truth, mere official orders in such a case can effect nothing, apart from an absolute stoppage of all exchange, unless foreign dealers, as well, voluntarily submit and coöperate; and if they do this, it indicates more strongly than ever that the recent increase in silver was a trick—a sort of “corner” on the part of over-confident holders.

In the ordinary course of trade in this neighbourhood there is always a certain number of Japanese merchants disposed to buy Mexicans. If they find they must pay an exorbitant premium for them, they will retire and wait,—unless caught at a sudden disadvantage and compelled for once to yield to extortion. That is undoubtedly what has just occurred. Possessors of Mexicans—Chinamen or others—thought they could enliven their trade a little by pushing up the price of that coin, and they were helped, consciously or unconsciously, by the onslaughts upon Japanese credit in the Yokohama newspapers. For a little time the native tradesmen endured it, but when they discovered that the flight was too high for them, they ceased to deal. Then, as was to be anticipated, the rates came tumbling down again. This, we confidently believe, is the sum and substance of the late flurry. As to government interference, one way or the other, it is the wildest fancy that ever entered the mind of man. As we have shown, such a course could, at most, have no result beyond that of producing a cessation of business; and that will come about of itself, if excessive rates of exchange are adhered to, without the interposition of any kind of peremptory authority.

Course of trade
requires traffic in
foreign money.

Causes of the
late “flurry.”

Over-issue a
mere guess.

Concerning the possibilities of the future we have said nothing, for it is not in our power to forecast them,

and we shall not imitate our contemporaries in the settlement by pretending to gifts of omniscience and prophecy. They have no direct information upon which to found their assertions that a vast over-issue of paper money is now in progress. It is all a guess, and, we suspect, a bad one. If there should be an unwarrantable over-issue, it will bring its own consequences but those consequences will concern Japan alone, and neither foreign ministers, consuls, merchants nor newspapers will have anything to do with the matter. On the other hand, as we have steadily held, the minor question of a rise or fall in Mexicans does not and cannot materially affect the interests of the people of this country. To say that they are "struck with consternation and dismay" is mere blind and staggering rhetoric. They know nothing about it, at all. The comparative few who have to do with foreign money or foreign wares will doubtless find it necessary to readjust for domestic customers the prices of their stock if Mexicans continue at a premium, and, in fact, the government has, in one particular, promptly provided against losses on this account. The telegraph bureau announces that for messages going abroad, an increase of ten per cent. above the established tariff will be charged,—and the reason is obvious. Japan must pay for the passage through foreign countries at foreign rates, and must make collection here accordingly. But it is also notified that "no extra charge will be made for transmission in Japan." That tells the whole tale. Up to this time the cost of everything Japanese remains unaltered; and there is nothing in the present condition of affairs to prevent it from continuing so, unless public confidence should be disturbed by unfair influences from outside, or by reckless and untimely agitations within.

Over-issue
concerns Japan
alone.

Fluctuations
cannot affect the
interests of the
people of this
country.

Prices remain
unaltered.

DEPRECIATED CURRENCY.

Japan Gazette, November 12, 1878.

The *Tokio Times*, in an article for that journal singularly temperate in language, but intemperate and unsound in argument, attempts to demonstrate that the fluctuations in Japanese currency are the result of particular methods adopted for the purpose of spreading discontent, and producing a financial panic among

Inaccuracies
in argument in
the preceding
article.

Japanese. If our contemporary were acquainted, even in the most superficial manner, with the conditions necessary for a sound and prosperous trade, he would not have been guilty of the inaccuracies which form the bases of his arguments. The first and most important element in trade is that the currency of the country should be at par with specie. If that *desideratum* is impossible to obtain then it is more desirable to have the Mexican dollar—or 'American silver'—at a discount than at a premium. This proposition needs no demonstration. It clears, however, the foreign community from an accusation which would be grave if it were not absurd.

Currency should be at par with specie to serve its purpose.

Origin of over-issue theory.

The assumption that the issue of *satsu* is excessive does not originate with the Yokohama newspapers. The opinion was entertained long ago that the issue of paper money had passed the point of absorption; and that any further issue, or the want of some assurance that circulation would not be increased, would be highly prejudicial to the value of that already current. The decline is but the natural consequence of the uncertainty as to the actual amount issued; an impression held by the people which has done more injury than probably any other cause to the credit of the government.

Government issues and national bank issues.

Large sales of unnegotiable bonds for currency.

It cannot be that our contemporary has forgotten the sum of paper admitted by the finance minister; its subsequent increase by 27,000,000 yen; and the impression made by the establishment of the innumerable so-called national banks, which the people unquestionably believe are but the media for the circulation of further sums of *satsu*. The recent heavy transactions in the disposal of government interest-bearing bonds in exchange for 'notes' issued by these banks—notes secured by new *satsu* from the Okurasho printing presses, and issued to the banks upon the security, and to the extent, of all the bonds they could purchase—the purchase of over thirty million yen of these securities publicly announced by the Japanese papers: the comments instantly made upon the movement by the foreign press, and then—the silence which leaves it an open question whether these operations are being continued or are at an end. General belief points to the continuance of the system of purchasing these bonds: it is clearly the interest of the government to exchange

their liabilities on interest-bearing paper to a liability for paper that, like *satsu*, bears no interest: no notification has yet been published abrogating the decree of the 9th September; while inquiry shows that transactions in pursuance of the permission to sell, are daily taking place. Questions of a most pertinent character have been asked. The government have been invited to declare the exact issue made by them and by the national banks; the only answer must be gathered from the notifications of similar character to those of the 2nd July, the 10th September, and the 7th and 23rd October, announcing that more banks may issue more, and unlimited sums of paper. The "trail of mystery" which surrounds the question of how much currency is floating, how much is being issued now, and will be hereafter allowed to be put into circulation, has done the injury to the credit of Japan with her own people which inflicts upon trade so serious a blow. With all this before us, we are told that the causes of depreciation are not natural, but forced on to gratify the wishes of a certain section of the foreign community: and that, instead of being alarmed, we should have perfect confidence in paper until the government come forward and say 'we have made an over-issue; look out for yourselves.'

Government
have been asked
for specific
declarations.

Uncertainty of
issue has done
grave injury to
their credit.

If we refer to a recent valuable report prepared by Mr. Mounsey on the financial statement for the year ending June 1878, we shall find a highly significant passage. Touching upon the increase of 10,690,122 yen in the reserve fund in one year Mr. Mounsey says:—

Reserve fund is
intended for
contingencies,
among others
depreciation
of currency,

This large increase forms the third remarkable feature of this year's estimates; for it will at once be asked, whence come these 10,690,122 yen, and why were they not applied to defray part of the expenditure caused by the insurrection? The *Minister of Finance* has himself enabled me to answer these two questions. . . . With respect to the second question the Minister of Finance has not expended these balances because he considers it of great importance that the Government should have a large and permanent reserve fund at their disposal. Japan, he says, is not a country from which the Government can always count on readily obtaining money, either by loan or increased taxation, and its rulers must consequently be provided with other means of meeting sudden and extra-

ordinary emergencies such as the late Satsuma insurrection. Besides this, a large reserve fund is requisite to prevent the depreciation of the paper currency and other Government bonds.

rendered probable by recent increases.

This statement is remarkable taken by itself, and more so in connection with the next sentence uttered by the finance minister which indicated that the large increase then made to both paper money and bonds rendered the contingency, against which he had provided, quite probable. His anticipations were soon verified; but a few months later and a feeling of insecurity akin to panic seized a large section of the people. This fear, however, was the result of belief in further issues than those admitted to have been made by the finance minister; a fear which could, if untrue or unfounded, have been at once calmed by a simple authoritative notification that *no further issue would be made*. What was really done to stem the tide of depreciation was not the devotion of any part of the reserve fund to the purpose for which the finance minister assured Mr. Mounsey it was intended, but measures of a different character, partaking more of pressure than of re-assurance, were adopted.

The reserve fund was, however, never used for this purpose.

Over-issue and inconvertibility causes of depreciation.

To be brief: the depreciation in *satsu* is due to a deeply rooted belief that the issue is excessive and unlimited; and, worse still, that it is absolutely inconvertible. The consequences are natural, and it is vain to hope for any improvement until a radical change be made in the financial system of the empire.

How confidence, or stability of value might be restored.

The only proof that want of confidence is due to this belief, would be afforded by a government notification declaring, in positive terms, that the further issue of paper is absolutely prohibited; and that steps will forthwith be taken to recall all that now floating and to replace it by a new form of note, for the purpose of determining within a given time, one year or more, the exact amount of national liability on promissory notes. If such measures as these were adopted, and the people could be assured of their *bonâ fide* character, the instant results would be the fall of 'American silver' to par with Japanese currency; and the effectual dissipation of impressions which, however erroneous they may be, are the bases upon which all the difficulties of the present monetary crisis rest.

November 18th, 1878.

If the notification, published in another column, authorizing four national banks to issue notes, had been dated one day earlier, the argument in our article on "Depreciated Currency" ⁽⁹⁾ would have been much strengthened. The *Tokio Times* informs us that an excessive and illegitimate issue of *satsu* is an incorrect assumption, and "that no one is aware of anything of the kind." We are further told that "No item of evidence has been adduced to demonstrate conclusively that an inundation of paper has been let loose over the land." To both these statements we take unqualified exception. The belief in an over-issue is justified by every circumstance connected with paper from the first declarations ever publicly made. In 1873, when Messrs. Inouye Kaworu and Shibusawa presented their famous memorial declaring that the debt of the empire, including paper money, exceeded one hundred million dollars, H.E. Okuma, the present finance minister, having traversed every very important statement in that memorial, thus disposed of the question of paper money. "Although paper money has been issued 'there is a 'Special Reserve Fund' to meet this which 'is deposited in the 'godowns' of the treasury.'" The public debt, internal and foreign, he stated to be 31,224,701 yen, and as his figures were avowedly put forward *after exact calculation and strict examination into true and correct figures*, and with the object of disposing of fears and arresting public discussion, a fair inference is that, whatever the amount of paper H. E. Okuma then believed to be current, he also believed that it was provided for by the "Special Reserve Fund." Three years later H. E. Okuma admitted a sum of 94,803,819 yen of paper currency, while the whole reserve fund, at the same date available, that is, in the possession of the treasury, was 24,416,257 yen. Since then the Satsuma rebellion added 27,000,000, and it appears from the *Hochi* and *Nichi Nichi Shinbun* that 20,700,000 yen had been issued by national banks, and that a further sum of 5,000,000 would soon be put into circulation. On July 2nd, 1878, the prime minister, by notification No. 16, authorized the various national banks to issue notes,

Further proof
of over-issue.

Early evidence.

What H. E.
Okuma said in
reply.

H. E. Okuma's
later admissions.

Recent
additions.

(9) *Vide* page 131.

and the Okurasho subsequently authorized the 74th, 50th, 60th, 100th, 39th, 40th, 41st, 104th and 120th banks to issue notes to be secured by *satsu*. To day the 101st, 67th, 72nd and 112th banks have received similar permission; and if all these glaring patent facts are not sufficient grounds for alarm, perhaps the *Tokio Times* can explain the reason, for certainly we cannot.

Sale of pension
bonds an
addition to
currency.

The public cannot too clearly understand that the sale of pension bonds, and their acquisition by the government through their agents the "national banks," is inundating the country with fresh issues of inconvertible paper, for it is impossible to accept the expedient of exchanging the notes of the banks "on demand" for government *satsu* as anything else than fresh issues of paper.

The effect must
be serious.

The government are certainly reducing their liability for interest on the bonds which they are acquiring at a considerable discount, and the next financial statement will, no doubt show this; but it would be absolutely dishonest to refrain from a warning that the measures taken to effect this object will have a most alarming effect upon the whole country. If the *Tokio Times* can bring forward some reasonable grounds why the public confidence should not be shaken, a vast service will be rendered to Japan, and we shall not hesitate to do all in our power to support anything of a re-assuring character: and if examination shows us to be in error, no time will be lost in recantation and correction.

THE ISSUE OF PAPER MONEY.

Tokio Times, November 23, 1878.

An effort to
refute the
"over-issue
theory."

One of our Yokohama contemporaries makes an appeal which is certainly worthy of attention, and the sincerity of which we see no cause to doubt. "If," says the *Gazette* "the *Tokio Times* can bring forward some reasonable grounds why the public confidence should not be shaken, a vast service will be rendered to Japan, and we shall not hesitate to do all in our power to support anything of a reassuring character: and if examination shows us to be in error, no time will be lost in recantation and correction." Nothing stands in the way of a full and frank response to this call, except

its vagueness. The important question of the day, according to a large class of the foreign community, is whether the government has or has not endangered the public welfare by secretly forcing an enormous amount of paper money into circulation. The organs of current opinion in Yokohama have chosen to assume that this has been done. The *Tokio Times*, on the other hand, knowing of no evidence to support such a charge, and observing that the whole burden of complaint and warning rests upon mere conjecture, has declined to be impressed by the extravagant representations which in many quarters have been too hastily accepted as trustworthy. We have repeatedly asked for proof of the alleged "over-issues," but none has been forthcoming. And now the *Gazette*, which has taken its stand at the head of the alarmists, and has done its best to shake the public confidence, applies for information that shall show "why the public confidence, should not be shaken." Under the circumstances, we do not conceive that the labor of producing testimony properly belongs to us; but we would nevertheless gladly supply any facts that have come before us, if we could feel sure of meeting our contemporary's exact wishes. The demand is not explicit, and it may be easy to turn aside such intelligence as we can offer by a careless declaration that something wholly different was expected. Moreover, we do not pretend to be in possession of facts that may not be obtained by any careful searcher, or by inquiries in the appropriate direction. Conscious, therefore, of undertaking a task which is liable to misconception, and of making an effort at explanation which may not be fairly appreciated, we will still act upon the belief that the *Gazette* means what it says, and submit a few pertinent details and figures the accuracy of which is guaranteed by indisputable authority.

The allegations as to an excessive distribution of government paper money may be dismissed in a few words. In the finance minister's report, published last January, it was stated that a sum of twenty-seven millions of yen (Yen 27,000,000) would be required to meet a part of the abnormal expenditure caused by the Kiu Siu rebellion. That amount has been added to the general circulation, and that only. Its issue was plainly announced, and no one pretends

No additional
satsu have left
the treasury.

National bank
notes, not *satsu*,
create the more
serious appre-
hension.

What these
banks are.

Their note
issues.

that any financial derangement was caused at the time. No one, indeed, would affirm that so comparatively small an increase could legitimately produce the results which have been witnessed during the past two months. We may presume that no attempt will be made to trace an extraordinary effect, in September, to an insufficient cause existing nearly a year ago, and we are warranted in declaring that no additional *kin satsu* have since left the treasury. But it is not with regard to *kin satsu* that the most serious apprehension is expressed. If we rightly comprehend the position taken by the Yokohama newspapers, the national banks are supposed to be the great source of peril. Millions, tens of millions, hundreds of millions, we are led to infer, have been or are soon to be thrown out by these agencies, until the country is reduced to ruin by the overwhelming flood. To what extent the operations of the national banks are understood by the community at large we are unable to say, and in briefly explaining their condition, we risk repeating matters of common knowledge for the sake of a clear demonstration throughout.

The rule for the organization of these institutions is simple and unvarying. Of the capital subscribed—eighty per cent. is devoted to the purchase of government bonds, which are deposited in the treasury for security. A bank may then issue an equivalent amount of its own notes. By this process, we are told, the nation is inundated. But before we yield assent to the assurance, it is desirable to learn the extent which the bank-note circulation has attained, and how far it may be augmented. The system was introduced some four years ago, but was not largely developed until 1877, at the end of which thirteen millions of yen were in use. This year the amount has been nearly, but not quite, doubled. At the present moment it has reached about twenty-four and one-third millions (Yen 24,861,390). The increase is no doubt considerable, but it has been measured and gradual;—not in any instance so sudden as to create an abrupt difference between paper and silver, like that which occurred two months ago. That particular event, we continue to believe, was due to artificial and unnatural causes, and can in no way be attributed to a bank-note circulation which has been advancing in regular, not spasmodic, steps for

more than a year. To suppose otherwise is to set aside the experience of all other nations and to reject a reasonable solution in favor of one which overtaxes the easiest credulity.

Finally, we have to consider the gloomy admonition of those who, dispossessed of their sense of peril in the present, are determined to see it looming in the future. Wisdom of restriction is undoubted.

"Where is it to end?"—they insist upon knowing; and, indeed, we are disposed to admit that—to say the least—no harm would have been done if the wise limitation prescribed at the outset to the transactions of the national banks had been freely communicated to the public. The extent to which the issue of these notes shall be sanctioned was fixed at thirty-six millions of yen,—an amount not to be exceeded under any circumstances that financial sagacity can foresee. Up to that point it has always been believed that no hazard would be incurred. Beyond it, there has been no intention to advance. Thus kept in restraint, the outflow of paper will stop far below that inundating height which the prophets of evil have threatened. Of course we must be prepared for a succession of skeptical outcries on this point. "Is this policy to be maintained;"—"Can the resolve be trusted?" The answer to such queries must be looked for in the records of the finance department, since its administration has been in the hands which now control it. If any suspicion as to integrity can there find justification, or any ground for doubting an official pledge, we have examined them in vain. A minister who has given no sign of deviation from the course marked out by his own clear judgment need hardly fear distrust of a purpose to which he has so distinctly committed himself. In the light of these several facts, we hold more strongly than ever to the conviction that the recent endeavor to provoke a monetary panic was as baseless as it was harmful. And unless our contemporary in Yokohama refuses to accept the facts, we fail to see how it can avoid a similar conclusion. We have rapidly set down what we have understood its paragraph to refer to, and would willingly add any closer details that might be required;—believing, however, that ample intelligence upon this and kindred subjects may always be obtained by any accredited applicant, and that knowledge gained thus directly

Endeavour to provoke a monetary panic baseless and harmful.

should be infinitely more satisfactory than when received through an intermediate channel.

Extract from
report by Mr.
Mounsey,
Secretary of
M.B.M. legation.

Mr. A. H. Mounsey, secretary to H. B. M. legation, drew up a report on Japanese finance dated January 31, 1878, from which the following extract dealing with the reserve fund is taken. As repeated reference has been made to this report, and the importance of the extracted passages is self-evident, their reproduction here is advisable.

	Yen.	£
Last year the amount of the reserve fund was stated to be.	28,341,416	=5,668,283
Plus loans repayable to Government	9,382,485	=1,876,497
	<hr/>	<hr/>
Total	37,723,901	=7,544,780
	<hr/>	<hr/>

This year the figures are:—

	Yen.	£
Reserve Fund	39,031,538	=7,807,307
Loans repayable to Government	8,067,285	=1,713,459
	<hr/>	<hr/>
Total	47,098,833	=9,419,766
	<hr/>	<hr/>

Increase of
reserve,

a remarkable
feature.

What the finance
minister said.
Where the in-
crease comes
from,

Thus showing a decrease in loans repayable to Government, but an increase of no less than 10,690,122 yen or £2,138,024, in the fund itself.

This large increase forms the third remarkable feature of this year's estimates. For it will at once be asked, whence come these 10,690,122 yen, and why were they not applied to defray part of the expenditure caused by the insurrection?

The Minister of Finance has himself enabled me to answer these two questions. In regard to the first, he states that he some time ago instituted a searching examination of the accounts of actual revenue and expenditure during the years preceding the 30th June, 1875, when, as will be remembered, a change was made in the financial year, and a new era of accounts commenced. The result of this examination, which was only lately completed, is a balance in favour of the

treasury of 7,701,000 yen. The remaining 2,989,121 yen are, he says, balances which have accrued in various ways since the change in the financial year; and, as an instance of their nature, he mentioned the fees upon title deeds which at the time of the reorganization of the land tax were paid by the Government, and are now being refunded by the proprietors of land.

With respect to the second question, the Minister of Finance has not expended these balances, because he considers it of great importance that the Government should have a large and permanent reserve fund at their disposal. Japan, he says, is not a country from which the Government can always count on readily obtaining money, either by loan or increased taxation, and its rulers must consequently be provided with other means of meeting sudden and extraordinary emergencies, such as the late Satsuma insurrection. Besides this, a large reserve fund is requisite to prevent the depreciation of the paper currency, and other Government bonds. The great additions just made to both of these render the maintenance of the fund at its present figure not only an absolute necessity for the Government, but, also, he adds, an advantage to the people generally, and more especially to the large class of persons whose means have been curtailed by the capitalization of their pensions. It appears that many of those who accepted the terms offered them by the voluntary capitalization scheme four years ago, considered it advantageous to raise money on their bonds for trading and other purposes. Purchasers were scarce, and many of the bonds were sold at as great a discount as 40 and even 50 per cent. The Minister of Finance foresees that the same thing will happen, on a vast scale, to the holders of the new capitalized pension bonds, and that the results will be widespread individual loss and discontent unless the Government appears on the market as a purchaser.

and why the reserve was not applied to defray the cost of the Satsuma rebellion.

With the aid of his reserve fund, he hopes to maintain the price of the bonds at a fair level, and thus benefit both their holders and the treasury. He seems, in short, to think that he will thus be able to give a price which will be welcome to those who are desirous of selling their bonds, and which will at the same time be remunerative to the state. He adds another reason in favour of a large reserve fund. As above stated, he proposes to neutralize the effect of his recent issue of 27,000,000 of paper money by withdrawing from circulation and destroying 27,100,000, of half yen and smaller notes, which he intends to replace in the course of fifteen years by subsidiary silver and copper coins. This operation could not, he says, be undertaken if the fund in question were much reduced.

Objects of reserve fund.

PAPER CURRENCY.

Japan Gazette, November 30, 1878.

Reply to the
Tokio Times.

National banks
and their notes.

Issue to be
36,000,000 yen.

Information
about issue may
be had on appli-
cation to finance
minister.

Such information
is of questionable
value.

The finance
minister should
make a positive
declaration.

In an article on the issue of paper money, our contemporary, the *Tokio Times* has given a considerable amount of information, which, though by no means new, is strongly in support of all that has been put forward, in another form, in these pages. We have stated that the opinion prevailing in Japan is that the sum of paper money declared by the finance minister in his estimates, is very much below the actual amount in circulation: and that the numerous so-called national banks are but the media for the distribution of further quantities. Our contemporary expresses belief that no harm would have been done if the limitation of the national banks' issues had been freely communicated to the public, and proceeds to give us, apparently upon authority, some important details of the organization of these institutions. It appears that upon the formation of the national banks four-fifths of the capital is to be expended in the purchase of government bonds, which are to be deposited in the treasury as security for an equivalent issue of the banks' own notes. We understand this process to indicate that national banks are, to the extent of four-fifths of their capital, nothing more than government agents for the purchase, at a heavy discount, of government interest-bearing liabilities in exchange for inconvertible paper bearing no interest. This is virtually admitted by our contemporary. He tells us that the system is to be continued until the issue of bank notes reaches an absolute maxima of 96,000,000 yen, of which a sum of more than two-thirds has already been issued. The reiterated question is always:—What is the total amount of paper currency floating in the empire? and the *Tokio Times* informs the public that "ample intelligence upon this and upon kindred subjects may always be obtained by any accredited applicant," presumably to the finance minister. If the people of this country ask for *quasi*-official information of this description they must be content with the result of their application; but a more unsatisfactory attempt to gain some assurance as to the financial condition of Japan cannot well be imagined. Will the finance minister, in an official notification, declare that the total issue of *satsu*, inclusive of the unsecured notes

of the national banks, does not exceed one *hundred and fifty, or two hundred millions* of *yen*; and that no further paper money is being turned out by the printing presses kept for that purpose? This is the information required to restore the rapidly decaying confidence in the financial future, for the belief in an over-issue will remain unshaken so long as no steps are taken to ascertain with accuracy the quantity already issued. That excellent grounds for doubt exist we will proceed to show as concisely as possible.

The *Tokio Times* states positively that beyond the sum required to meet the expenses of the Kiu Siu difficulties (27,000,000 yen) no further sum of *kinsatsu* has been added to the general circulation. If this explicit refutation of the common belief were supported by evidence its effect would instantly be noticed. The greater portion of such evidence as can be obtained, and we confess that that part chiefly rests upon the persistent reiteration of persons who possess the requisite knowledge of the internal affairs of Japan to enable them to speak with some authority, tends to show that the expenditure estimated by the Finance Minister has been year by year largely exceeded, while the income has not reached the anticipated sum. All deficits are said to have been supplied by the ready means of the paper money printing machines. Many persons refuse to believe that any true statement of actual revenue and expenditure can be published without creating alarm at the deficits which have had to be thus covered up and concealed from the public scrutiny. No statement showing mere trifling deficiencies will be accepted without a thorough examination into the quantity of paper currency actually issued; and, in fact, a recall of the present unnumbered notes and the substitution of others, for the purpose of accurately ascertaining the state liability, are necessary measures, and no general credence can be given to statements founded upon supposititious grounds until this crucial test has been applied to their claims upon the confidence of the people.

Reasons for doubting the truth of the allegations respecting issue.

PAPER CURRENCY.

Japan Gazette, December 14, 1878.

An interesting discussion took place at the Tokio Discussion in chamber of commerce meeting on the 5th instant, when the Tokio cham-

ber of commerce. Mr. Okura Kihachiro drew attention to the depreciation of paper currency. With all respect for the collective wisdom of the chamber we are constrained to say that of the two remedies proposed one is wholly inadequate to meet the crisis, and the other, the extraordinary suggestion of Messrs. Masuda and Shibusawa, is impracticable.

As the chamber will most probably resume the discussion at the next meeting, we propose to draw upon a work of much value with the object of bringing to the notice of Mr. Okura Kihachiro the opinions entertained by a distinguished professor of a national science most interesting to Japan at the present time.

Professor
Bonamy Price.

In a lecture delivered by Mr. Bonamy Price, professor of political economy in the university of Oxford, there is much and useful matter intimately connected with the great subject of the day in Japan. The lecture is entitled "Paper Currency," and we propose to call attention to the salient and most interesting points bearing any relation to the condition of the paper issue in this country.

Paper as cur-
rency is indis-
pensable.

It is obvious that no system of trade can be carried on by the agency of coin alone, and that a very great proportion of the ordinary transactions of life are perfected by means of credit, promises to pay, and symbols of payment passed from hand to hand which the law will enforce against those who do not make their promises good: and that by these means the supercession of coin by a paper symbol confers an immense service on a nation. One feature of paper currency in all countries is specially applicable to Japan, where the difficulty of travel, and danger attending the transport of precious metals, are matters of common knowledge.

The paper note possesses some further advantage over coin. It is lighter to carry; the want of weight is a real superiority in endless cases. Then it is easier to keep in safety than coin. It is a dangerous thing to steal, for it cannot be melted down like a coin; and by the numbers printed upon it, it furnishes an important security against robbery. These advantages, combined with that of cheapness, explain how it comes to pass that in some countries, as in Scotland, the one-pound paper note is preferred by sellers to the sovereign.

Preference in
Japan for
paper.

The people of Japan have hitherto shown a decided preference for paper over metallic currency, and chiefly for the reasons here given, though the security against

robbery is weakened by the absence of numbers, and the consequent impossibility of identifying the notes when once removed from the possession of the lawful owner.

As the worth of a bank note depends upon the certainty of the promise it contains on its face being redeemed by the delivery of the specie when demanded, its depreciation is certain the moment the value of that promise is diminished by the occurrence of any circumstance affecting the promiser's credit. If it should be known that there are no means of redeeming the promise, the note becomes a drug upon the market, and bears a value only in ratio to the degree of confidence the public are willing to place in the eventual redemption of the article.

Upon what does the value of paper currency depend?

It plainly follows, from these facts, that the promise does its work as well as the coin promised on one condition, and one only—that there shall be a peremptory obligation on the part of the issuer to pay it on demand. Without complete convertibility, the promise to pay is insecure, and immediately becomes exposed to a new and formidable danger. The utmost harm of superfluous sovereigns is that they are compelled to lie idle; they are expelled like drones from the circulation, and sent to sleep, either in hoards or in banking cellars. But inconvertible notes, green-backed promises to pay for which no payment can be demanded, may be sent forth in unlimited numbers, and, which is the point of the matter, may be compelled to stay out in unlimited numbers. If a tradesman finds that twenty sovereigns will do his day's work, and that he has thirty, he will send off ten to his banker, who will forward them to his cellar in Threadneedle Street. No more sovereigns will remain out than there is work for. But if notes are issued as they now are by the American Government, and, the valve opening one way only, cannot be sent back again, they quickly expand into excessive numbers, far beyond what the exchanges of property to be effected require. Hence every holder is anxious to part with them, and, finding no outlet, consents to give them away at a loss. They submit to a discount, and there is no limit to that discount, if the inconvertible issues are continued.

Upon its convertibility.

After briefly explaining why the issue of notes by a Bankers' and bank is supported by public confidence, so long as the bank meets the claims made upon it, a comparison is drawn showing how—

government notes.

Notes issued by a government have a different origin. They are instruments for obtaining supplies for its wants

without paying for them. But a government would encounter much difficulty in carrying out this operation on an extensive scale: the security it can offer for payment, strange to say, is far inferior to that furnished by a bank. A bank must pay its debts, the sum promised on its notes, or become liable to all the pains of insolvency: its business is arrested, and its property seized by a decree of a court of law. In case of a government note there is no one to go to prison, or to have his property sequestered, if it fails to meet its engagements. And this fact leads to a second. By the very nature of his business, a banker's great object is to retain the command of the means which he acquires with his notes. His one desire is to make a profit out of them, but not to lose or waste them. A government lies under no such feeling. The notes are issued to pay for consumption—the commodities purchased with them are at once taken into use for destruction. Those who took government notes would know that of a certainty there were no funds in existence that could be produced to cash notes presented. A government bank note, therefore, standing on its own merits, could not compete with notes issued by bankers. It would be swept off the market.

Japan's position seems to controvert these principles.

If we venture to doubt the evidence of our senses, or to discredit the disproportionate value at which the paper issued by the Japanese government is quoted in relation to specie, the theory here advanced by Mr. Price receives practical contradiction. The large issue of notes by government directly, and again by them through the medium of the national banks, is much in excess of the trade or any other requirements of the country, but notwithstanding a growing belief that the steam engines at the printing office of the Okurasho are busily employed in the manufacture of more paper for circulation, the discount of the government note is remarkably small. If Mr. Price's theory is correct, as it certainly seems to be sound in every particular, the future of Japanese paper admits of little doubt: all is dark with the prospect of inevitable disaster, for the Japanese government have put into force the method of procuring circulation of their paper that has been tried before by others; they have made it a legal tender. There are many false notions about the real meaning of this term.

Legal tender.

What it means.

Legal tender does not mean, as many absurdly suppose, that a shop-keeper is obliged to sell for a legal tender note: but the legal tender law compels him to take the note on

presentation for a debt recorded in his books. The word legal tender denotes that the law will regard it as a discharge of the debt. By the help of a legal tender a government can get its notes into circulation. . . . Thus the government obtains what it seeks—supplies of what it wants without paying for them in ready money. It acknowledges a debt due for the amount which they cost, for the notes issued; but that debt remains a debt only, with the additional advantage of having to pay no interest upon it. But how fares it, then, with the public? Have they lost the stores thus bought by the government with pieces of paper? Are they harmed in any way? The answer to this question depends upon the character of these notes. If the government makes its notes convertible by giving money for as many notes as are presented for payment, then the nation suffers no loss. . . . But the case is entirely different if the notes are inconvertible, and are issued in excess beyond the wants of the public. That excess depreciates their value. The one-pound note may go down to fifteen shillings' (25 per cent. discount). Thus it becomes plain that the successive issues which lowered their value were made at the cost of the holders of the previous issues. They find that the notes in their hands now buy no more than fifteen shillings worth of goods: the government has obtained the supplies purchased with these issues in excess at the expense of the holders of the previously issued notes.

Commenting upon the licences granted to the national banks to issue notes, we, some months ago, remarked:—"It would appear that the point of absorption is passed, and that, as the country can take no more new paper without depreciating the whole issue by at least the equivalent of the extra sum put into circulation, some guarantee is required that the further issue of paper is effectually stopped." We submit that this reasoning is in concord with the passage quoted from Mr. Price's lecture, and is supported by subsequent events. The *Tokio Times*, on the issue of notes by the national banks, denies that the depreciation of *satsu* is attributable to that source, and adds "That particular event, we continue to believe, was due to artificial, unnatural causes, and can in no way be attributed to a bank-note circulation which has been advancing in regular, not spasmodic, steps for more than a year. To suppose otherwise is to set aside the experiences of all other nations, and to reject a reasonable solution in favour of one which overtaxes the easiest credulity." The bank-note circulation which, according to the *Tokio*

Warning had been given that the limit of issue had been reached.

Refutation of the *Tokio Times*.

Times, has been advancing 'regularly and not spasmodically,' was, taking our contemporary's own figures, thirteen millions at the end of 1877, and twenty-four and one-third millions ten months later. In that period, therefore, and assuming that no other issues have been made, an addition of over eleven millions has taken place; to which must be added eighty per cent. of the capitals of the fourteen national banks permitted, by notifications of 25th and 28th November last, to issue notes. Upon these statements we are content to rest. If the circulation on the 1st January, 1878, was one hundred and twenty-one millions, and the value of the paper was then between four and five per cent discount, the addition of twelve millions, or ten per cent., has caused a greater proportional decline of the whole issue, which is now quoted at fifteen to sixteen per cent. discount. These are facts; not impositions upon 'easy credulity.'

Consequences.

The extent to which this series of quotations has reached, necessitates a temporary discontinuance of the subject; but we do most sincerely commend to the attention of the Tokio chamber of commerce the imperative need of calling upon the government to suspend further issues as the only course at all calculated to prevent national ruin; and to abandon all those false and vain theories of attempting to keep up the value of a vitiated currency by gambling with two millions of specie in speculations which twenty millions could not make successful.

Japan Gazette, December 21, 1878.

Indirect issues of paper.

We took leave of this subject on the 14th instant at that part of Mr. Bonamy Price's work in which he demonstrates that any excessive issue of paper by a government will depreciate the whole existing circulation, and we have now to refer briefly to the indirect issue of government paper through the agency of banking institutions.

The question has been often debated whether a government is reasonably entitled to engage in such operations. It is condemned by many as an unjustifiable interference with private trade. Upon such a principle why should not a government become a manufacturer?

The argument upon which this writer relies is that no issue of paper can answer any good purpose unless it is secured by equivalent deposits of specie, or of such other material security as may, under ordinary circumstances, be speedily realized. In a country like England where commerce assumes such vast proportions this theory is practically exemplified.

It is increasingly perceived that, by the very nature itself of currency, it is a tool, constructed to do a particular work. Hence so many convertible bank-notes will the public use, as it has a positive need for in paying with bank-notes, and no more. This is the universal law of all tools, the law of supply and demand.

The *Hochi Shinbun*, in September last, struck the right key by saying "We do not mind how many notes are issued by the banks if their security is gold or 'silver ;' but our Japanese contemporary was in error in its estimate of the position of bankers in England. There the Bank Act provides that the Bank of England may deposit government securities worth fifteen millions sterling, and issue fifteen millions of notes. The bank is also authorized to issue as many more notes as the public chooses to ask for, upon one condition, namely, that for every note so issued an equivalent in gold must be deposited with the issue department. In the year 1844 country banks issuing notes were limited to a circulation based upon the average circulation of a specified anterior period ; and no new country banks were permitted to issue notes after that date. The condition with which this privilege was burdened was that no such bank should carry on business in London or within sixty-five miles of it. This provision means a gradual extinction of private banks of issue, for some of the principal country bankers have abandoned their right to issue notes, preferring the profit to be derived from carrying on business in the metropolis. When this natural law has had its effect there will only be one bank in England authorized to issue notes ; and the whole of that issue will be secured by actual deposit of specie, except for that sum representing the government securities before mentioned. It is a remarkable circumstance that in times of commercial panic the public belief in the suspension of the bank act is founded upon purely imaginary reasoning. The impression that the

Inconvertible paper cannot answer any good purpose.

Japanese views of English banks.

English bankers and the Bank Act.

Suspension of Bank Act.

issue of unsecured notes can give relief to financial embarrassments is a delusion.

Examples.

This is proved by the fact that in obedience to the popular demand the bank act was suspended on three occasions—in 1847, 1857, and 1866. In those years the law regulating the issue of notes was still complied with.

The law was obeyed as a fact; the suspension made no difference. Hence, incontestably, suspension was proved to be a nullity. It did not give a particle of bank-note relief to trade; it did not add a pound to the resources of bankers to grant help to traders.

**English system
the only true
one.**

The system pursued in England is seemingly the only true one. Bank-notes will be issued and used as the public require them, but not beyond; and for every note so issued a positive equivalent in gold must be deposited. The consequence of this is the astounding but absolutely truthful assertion that there a paper currency identical, not in value only but in amount, with a circulation exclusively of coin, is the only recognized principle of currency. In Japan the

**Contrast afford-
ed by Japan.**

issue of paper has not been made to meet the requirements of trade or the wants of the public: it has been manufactured wholesale to pay for those supplies which have been taken into use for destruction; to cover, it is said, deficits in the estimates; to pay to farmers and others for the rice which the government export in order to obtain specie with which to meet those liabilities that specie alone can satisfy. The amount of the issue is unknown. The burning of the records is said to have destroyed all trace of the extent of the circulation, but there is nevertheless an exact sum set out by the finance minister, and this notwithstanding the fact that the notes are unnumbered, and are being manufactured, according to Japanese opinion, as fast as the printing office of the Okurasho can turn them out. The most serious consideration is, however, that which leads to the belief that *satsu* are absolutely inconvertible. The finance minister explained to Mr. Mounsey that one chief reason for maintaining the reserve fund at so high a figure was to "prevent the depreciation of paper currency and other government bonds." The depreciation of paper is considerable; it has been gradually declining, but the finance minister has not performed his promise. The reason assigned by Japanese for the

**Reserve fund
available,**

finance minister's inaction is that there is absolutely no *specie* available for any such purpose, and we therefore conclude this review with some quotations in respect of inconvertible notes, among which the *satsu* current in Japan must be included.

We have now reached the plague spot of paper currency "Plague spot of —the inconvertible bank-note. . . . The inconvertible note is a bad tool. It does bad work but yet not always. It is capable, under particular circumstances, of doing good work, but then that is not the object of which its advocates are in search. . . . We have seen that the guarantee furnished by coin is the value of the metal of which it is made. Further we know that men will give away their goods on credit, relying on payment on a future day; in fact they take a debt as a guarantee for future payment. The same motive persuades them to accept the debt expressed on a bank-note. That motive acts on all other sellers, and thus the bank-note circulates as currency, and is not presented for payment if wanted for circulating use."

This explanation is necessary to understand that the inconvertible note may, under a special condition, do good work as currency. That condition is that no more of these inconvertible notes are issued than the public requires for actual use; in which case they will circulate on a level with coin; but the moment the supply is increased beyond the public requirement depreciation begins, and there is no end to that depreciation if excessive issues are continued. When a government begin the necessitous issue of paper the temptation to go on obtaining supplies of goods upon the mere ground of promises which need not be performed, is irresistible; and strange to say the practice is not without theoretical supporters, who look upon an inflation of the currency as a means of increasing trade. The Japanese government have made an excessive issue of a most pernicious currency.

"And now for the consequences. The law of supply and demand asserts itself here, as everywhere else, in political economy. Too great a supply means fall of value. People find that they have more notes than they want. To get rid of them, they make a sacrifice of value; they consent to reckon them for less than their nominal worth when making purchases of commodities. Consequences of excessive issues."

But what does such a depreciation mean? That every creditor is injured who is compelled to take them at par, and every debtor unjustly benefited at the creditor's expense.

The prices of goods in every shop are raised to meet the defective value of the notes. The shopkeeper is charged twenty-seven shillings in notes for what he would procure for a pound in metal. Thus the creditor who had a debt estimated in pounds and received notes was nothing less than plundered. . . .

And what temptation is thus created for governments to pay off their national debts with heavy discounts, and all on the plea of legality and the use of an enlightened currency. Thus, the one single function which currency was invented to discharge is radically corrupted. Instead of effecting the exchange of equal goods in two purchases by the intervention of money, the bad note exchanges goods in unequal quantities; the seller, when he buys in turn, gets less than the worth of the goods he sold. But the evil does not stop here. The undulations of the disastrous fall of the stone in the water spread in ever-widening circles. Gambling is introduced into every act of trade—an element most hostile to the nature of true trade and full of ruinous consequences. . . .

And all this disorder, this taxation on all buyers, this most unjust and cruel wrong and loss inflicted on all creditors, this tainting of all trading with gambling by the use of a tool which refuses to do the one work it was invented for performing, what assignable motive can it have?

One motive it has in almost every case—what Mr M'Culloch calls 'the enrichment of one part of society at the expense of another.' "

Effect of depreciation upon government bonds;

Numerous significant references have been made of late to the system in force for the redemption of government bonds. The depreciation in currency adds a condition to the terms of sale which holders will do well to take into their earnest consideration, and, before parting with interest bearing securities, to ascertain how far the fast increasing depreciation affects the generous offers of the government to redeem their liabilities at the modest rebate recently notified. Mr. M'Culloch says:—

and its direct interference with the terms of all contracts.

"Directly to alter the terms of contracts between individuals would be too barefaced and tyrannical an interference with the rights of modesty to be tolerated. Those who endeavour to enrich one part of society at the expense of another find it necessary to act with caution and reserve. Instead of changing the stipulations in contracts, they have resorted to the ingenious device of changing the standard by which these stipulations are adjusted. They have not said, in so many words, that ten or twenty per cent. should be added to or deducted from the debts and obligations of

society, but they have, nevertheless, effected this by making a proportionate change in the value of money."

The crisis now fast drawing on in Japan cannot be averted. The simple and confiding agricultural classes are taking the alarm. Rice and all other necessities of life have advanced in price, from a cause which can no longer be disguised by the stories of short crops and the losses contingent upon disastrous inundations with which the *Nichi Nichi Shinbun* seeks to amuse the public. A crisis cannot be averted,

The initiation of some vigorous policy which should look the dreadful abuse in the face would tend greatly to revive drooping confidence, and to lessen the inevitable sufferings which must be borne by the teeming population of this country. The misery now threatening will be surely heightened if the government persist in issuing a vitiated currency in disregard of all the solemn warnings which have, from time to time, been given with earnest sincerity, and of the experiences of the greatest political economists the world has produced. Mr. Bonamy Price, admitting that there may arise a dire necessity for a nation to issue an unsecured currency, concludes his most valuable essay as follows:— but may be lessened by a vigorous policy.

"It should never be forgotten that the harm inflicted by such a currency goes on uninterruptedly year after year; it never stops; it is always working fresh injury. It goes on persecuting society at every turn. It poisons every sale as time rolls on, every exchange. Overwhelming necessity may extenuate the imposition of so easy but so vicious a tax. But the pressure once over not a day should be lost by any legislature which has any knowledge of the nature and working of money, to arrest the plague and sweep away the inconvertible paper, which it felt forced to have recourse to in the hour of danger."

MORE PAPER!

Japan Gazette, January 18, 1879.

It is an admitted truth that an excessive issue of unsecured notes is a direct injury to the country issuing them of greater proportion than the most favourable conditions could make such issue beneficial. This result is fast drawing on in Japan, where it will be found that each successive issue, so soon as felt, will cause a corresponding depreciation; in other words, the liability of the Excess of paper highly injurious: Japan now threatened with the evil.

government for paper will be increased without any accruing benefit, either immediate or remote. In January 1878, the difference between the standard coin and paper currency was about seven per cent, the extra issue of 27,000,000 yen of the latter having then been declared. This increased issue was certainly felt, but not in a marked degree until it became known that the national banks were putting further sums of inconvertible paper into circulation. The real increase is therefore unknown, but the *Hochi Shinbun* states:—

50,000,000 yen
additional in
1878.

Practical illustration afforded
by Japan of the
truth of the
theory.

“The additional issue of paper money, after the suppression of the rebellion, and the notes issued by several banks, caused an increase of 50,000,000 yen in the circulation of last year.”

The position therefore appears to be, that in January 1878 the admitted issue was 121,000,000 of *satsu* worth 112,530,000 gold yen. In January 1879, taking the admitted issue at 144,000,000 of *satsu*, the depreciation of the whole sum is such as to reduce it to the equivalent of 96,480,000 gold yen. These figures speak for themselves, and form a practical comment upon the injury inflicted upon the people by these suicidal paper issues. Up to a certain point *satsu* were accepted because they could be used for trade and other requirements, and could be passed on from hand to hand as the symbols of money; but the moment the limit of absorption was passed the depreciation was swift and ruinous; and it is no exaggeration to say that the issues of the national banks, amounting in the aggregate to 23,000,000 yen (*Hochi Shinbun*:—war expenses 27,000,000, bank notes 23,000,000), or an increase of nineteen per cent., caused a direct loss to the holders of *satsu* of twenty-six per cent. within one year.

Native press
asked to look
at affairs in
their true light.

In face of these facts we implore the Japanese press to refrain from the silly allusions to the causes of depreciation of which so many newspapers are guilty, and, instead of wasting valuable time in fabricating false theories to account for a perfectly natural fact, look the evil in the face and endeavour to discover some means of preventing further loss.

Example of the
manner in which
native press deals
with the cur-
rency question.

The utterances of the *Mai Nichi Shinbun* may be quoted as a fair example of the manner in which Japanese writers deal with questions of the most vital importance to their own welfare. That journal declares

that "the wicked efforts of foreign editors, bankers, and exchange brokers have caused the depreciation of paper money," a statement as painfully ludicrous and as equally absurd as that recently made by a foreign print which remarked "Although the decrease in difference between the nominal value of Mexican dollars and *kin-satsu* has thrown ridicule upon the particular method adopted a month ago for producing a financial panic among Japanese, yet the effort to spread discontent and uneasiness is by no means abandoned. In the confident expectation, not to say hope, entertained by a certain section of the foreign community, that American silver would continue to rise in price, a series of ominous predictions was put forward tending to excite alarm upon that special ground, with slight consideration of other contingencies."

This is the manner in which the first question connected with the welfare of Japan is slurred over by writers who seem to forget that the depreciation is steadily increasing from one cause—over-issue—and the uncertainty attending upon the extent of that over-issue.

Attempt to disguise real issues.

Appeals to the finance minister to stop the extravagant note circulation of banks which possess not one single coin of reserve to redeem their illegitimate and most worthless promises to pay, are responded to by fresh notifications authorizing further issues. To plain questions that could be answered in a manner far from compromising to the dignity of the minister, a contemptuous silence is observed, but the public are informed, in a most irregular manner and through a medium which casts discredit upon the semi-official utterances, that a sum of 27,000,000 yen only has been added to the general paper circulation. Even while giving this item of utterly useless information the real question is ignored. What is the total sum of paper floating in Japan? The finance minister says 121,000,000, but if we look through the many financial reports issued by him we find that no reliance can be placed upon that estimate, and more particularly so when we remember that the records were destroyed by fire.

Appeals to the finance minister are vain.

The attacks made by this journal upon the cruel financial policy of Japan are more than justified, for such foreign trade as there is is seriously embarrassed by the depreciation of an utterly inconvertible currency, which will most surely bring upon the nation misery

Fears for the future of trade.

and suffering far greater than it is in our power to conceive. There is one consolation, and that is that one honest voice has been raised against the insensate continuance of the fiscal system of this country.

AN INDEPENDENT VIEW OF THE POSITION.

Japan Gazette, February 1, 1879.

National circumstances are beyond control.

The views of an independent Japanese.

Memorial of Inouye and Shibusawa.

"It is the fortune of nations, as of individuals, that there is never a moment of time when they are so entirely free from all obligations as to be absolute masters of their own policy and conduct. Our financial policy has been dictated in its most important features by events and circumstances over which the nation had no control." This is said of the United States by an eminent American financier, and the same words could be used with justice and propriety by a Japanese in referring to his country and her financial obligations. If an independent Japanese, with sufficient ability and courage to take a broad and fearless view of the present position, should reduce his opinions and their foundations into writing, or deliver them in the form of a lecture, he would not fail to make full allowances for the difficulties with which his excellency the finance minister has had to contend since his acceptance of the onerous post he still holds. And to do this with perfect fairness he would begin at a comparatively recent period—1873—under the belief that five years had been time sufficient to enable the finance minister to speak with authority and accuracy upon matters so proximate to the important office he held. This resolve would necessitate a retrospect, and the most prominent feature of the past would be the memorial prepared upon the resignation of their offices by Messrs. Inouye Kaworu and Shibusawa. However worthless that document may have been considered at the time of its publication, subsequent events have lent to it an importance which can no longer be concealed or stifled by ministerial indignation; and the sentences pronounced upon the writers, and the immediate and ludicrous commutation of penal servitude in a chain gang to a nominal fine, can weigh nothing, nor even be considered in the balance, when it is known that Mr. Inouye is now minister of

public works, and Mr. Shibusawa president of the first national bank.

The memorial of these gentlemen set out that the revenue was barely four-fifths of the expenditure; that the internal debt was being gradually but surely increased; and that national embarrassment could only be prevented by the imposition of more burdensome taxes upon the "miserable people who can barely maintain themselves on their scanty means." The memorialists declared the debts of the empire to amount to 120,000,000 *yen*, inclusive of liabilities on paper money issued by the state, and they concluded the only clear exposition of Japanese finance ever given to the world by a series of suggestions for retrenchment, couched in language of more than usual brevity and feeling, declaring the redemption of loans, home and foreign, and of the paper currency to be the first duty of the country. While pondering over the contents of this memorial, our lecturer would have to give due consideration to the able manner in which Mr. Okuma disproved every allegation of his subordinates. Within a very few days after the publication of the memorial in the *Nishin Shinjishi*, the finance minister declared that the national estimates showed a surplus of 2,140,864 *yen*: and that the gross liability of the empire for foreign and internal debt was only 81,224,701 *yen*.* The finance minister put forward this statement with all confidence, and for the avowed purpose of dispelling the false impressions created by the Inouye-Shibusawa memorial, to disabuse the minds of Japanese and foreigners of the supposed perilous position of the treasury, and "in order that their doubts may be dissolved, and public discussion be arrested," by his explicit exposition of the state of the finances prepared after "exact calculation and strict examination into true and correct figures."

In 1874 the finance archives were destroyed by fire, and it was said at the time that all the records connected with the existing issue of government paper had perished. Severe and inconvenient as the loss must have been, its remedy was simple and comparatively inexpensive. The lost records could have been replaced by a new issue recalling the old *satsu*. For some time after the loss of these documents there was

Nature of the memorial.

Supposed destruction of paper money records:

* June 1873.

Yet the issue is stated at an exact sum.

a general belief that some measures would be taken to ascertain the amount of the state liability, which, up to that time, was unknown, or if known no specific sum had been publicly declared: but these measures were rendered unnecessary by the financial statement for 1875, which showed that Mr. Okuma had, notwithstanding the destruction of the Okurasho and its records, settled the total paper currency at a sum of 94,803,819 yen. In the interval since this first declaration a small portion of paper has been redeemed, but an issue of 27,000,000 yen was made to meet the urgent demands of the southern rebellion; and at the beginning of the fiscal year 1879, the gross liability on paper was stated to be 120,927,209 yen. If the nation could support and maintain at a premium or even at par, 95,000,000 yen in paper five years ago, it is evident that an extra issue of 27,000,000, made for one of the very few reasons which justify the issue of unsecured currency, has been the cause of a depreciation of the whole to an extent so considerable that even those who had least confidence in the ability of the government to redeem their indebtedness, look upon with dismay.

Allegation of over-issue a reflection upon the veracity of the minister.

'If I were to inform you,' the lecturer would continue, 'that the reason assigned by the people for the steady diminution in value of *satsu* is the belief that the total issue is nearly 100,000,000 yen in excess of that officially declared, and that the uncertainty as to the real amount is destructive of public confidence, my words would reflect not only upon the finance minister in his official capacity, but also upon his supposed inspiration of a foreign journal which recently declared that the only addition made to the paper issue was the 27,000,000 yen above mentioned. Again, if the admission of H. E. Okuma in 1875 should be urged in corroboration of the estimates of the public debt made by Messrs. Shibusawa and Inouye, what must be thought of the contradiction of those estimates made by H. E. Okuma in 1873? Painful as is the duty imposed upon a freeman, the truth must be uttered. The people are led to believe that all records have been destroyed and that an unsupported estimate of the state liability must be accepted in full and satisfactory reply to the most momentous, most vital, questions that can arise in connection with the welfare of an entire nation. They are told, indirectly it

it true, to accept the paper issue without suspicion, until such time as the government come forward and say "We have made an over issue." Inquiries made in all honesty and sincerity of purpose are rebuked by contemptuous and chilling silence, while government notifications giving power to national banks to issue unsecured notes are constantly being published, and as constantly dealing deadly blows at the credit of the nation.'

After thus summing up the position, there remains to be considered the principle of "our financial policy" which seems to be to provide for all national requirements by the issue of unnumbered, unsecured, and absolutely inconvertible notes and by declaring them to be a legal tender.

All expenses
defrayed by the
issue of notes.

"The notion that a government may make a declaration upon a piece of paper, that the piece of paper on which the declaration is made is one dollar or one thousand dollars, the difference being difference of typography alone, is a very modern notion, which one of its advocates attempts to dignify by calling it 'the American system of finance.' As a notion it is American, but as a system it has yet no existence in this or in any other country. Experiments containing everything that is proposed by the advocates of this experiment, and something advantageous in addition thereto, have been tried, and in every instance they have failed . . .

Mr. Boutwell
on currency.

. . . There have been three trials by three different governments, under differing conditions, at times quite remote from each other, and each and every of the trials was a signal failure Can a government, a mere human government, create something out of nothing—make that valuable which, in the opinion of all mankind, is valueless? Or, if it can not do that or this, can it by a decree so change the opinions of men in mass that they will accept as valuable that which in fact has no value, and after experience so continue to act through indefinite periods of time? The best evidence that men might be so deluded is to be found in the wickedness of those who propose the measure and in the folly of those who accept it. The existence of such classes, even though they bear a small proportion only to the whole, is suggestive of a state of society in which the wildest absurdities and the most dangerous vagaries many flourish for a time."

In every instance
paper as cur-
rency has failed:

Yet the experiment is to be repeated in Japan in defiance of all experience,

and in disregard of its injustice.

Here in Japan we are commanded to accept as valuable stamped pieces of paper of an intrinsic worth that defies expression: the issuers of that currency persistently increase the circulation through the medium of the national banks and as persistently declare that the alarming depreciation is not due to their suicidal policy, but to foreign intrigues to "increase the value of dollars." The decree which constitutes this currency a legal tender is a monstrous injustice to the people which is now being keenly felt by all classes, more particularly the traders, for,—

"Trade is the exchange of one thing of value for another thing of value, or the surrender of one thing of value for the promise of another thing of value."

And as this principle can no longer be carried out in this country trade itself is paralysed and the best energies of the people upon which alone Japan can trust for relief from her burden of debt, are being undermined and destroyed by the national currency, for it is evident that when—

"The possessor of property yields his title to another, he should receive other property in return or a promise of other property; and when this not done, he is the subject of a wrong."

[The quotations inserted in this article are from a paper written by Mr. George S. Boutwell, entitled "Substance and Shadow in Finance" contributed to the *North American Review* of January 1879.]

THE NATIONAL BANK ISSUE.

Tokio Times, March 1, 1879.

Moderation of the *Tokio Times*.

Readers of the *TOKIO TIMES* do not need to be reminded that questions relating to the finances of Japan have always been discussed, in these pages, with prudence and moderation. At the commencement of what appeared to be concerted demonstration of hostility, on the part of certain foreign organs in this neighbourhood, against the credit of the government, some six months ago, we ventured to admonish the public, and more particularly the Japanese community, that no dependence should be placed upon the ominous predictions of alarmists who, if not themselves directly interested in producing a feeling of general uneasiness, were believed

to represent the schemes and intrigues of irresponsible speculators. We resisted the attempt to destroy confidence in the currency of the realm, believing that no ground for distrust was apparent, and that if the agitation were not restrained by reason and reflection, a panic might ensue, bringing disaster to all,—except, perhaps, the parties who organized and developed it.

It resisted attempts to destroy confidence,

We showed that the fluctuations in the price of Mexican coins, over which so many fictitious lamentations were wasted, had no legitimate cause, and that their daily rise or fall could in no way affect the business of the country at large. While recognizing,—as all who have given serious attention to the subject must recognize,—the dangers of an excessive superfluity of paper money, we declined entirely to acquiesce in the notion that the excessive superfluity was in existence; and if the evil consequences of unwarrantable inflation were not more specifically treated, it was because we saw no reason to apprehend that any such perilous experiment was contemplated. So long as the domestic trade was undisturbed, it appeared to us a matter of indifference whether Mexican dollars were dancing about from ten per cent. to twenty per cent. premium, or whether they remained at par. As the months passed on, although the approach of chaos and doom was heralded with redoubled vigor, we found no occasion to abandon the position first taken by this journal. At this moment, we are less disposed to abandon it, than ever.

and proved that fluctuation had no real causes.

There was no over-issue.

It must of course be understood that our views, throughout, have been upon the conviction that the pledges of the government are sincere, and that the minister who controls the national finances is a man of integrity not inferior to his ability. Since the management of the O Kura Sho and the great interests connected with it were confided to him, nothing has occurred to justify the first suspicion of his motives, his conduct, or his intentions. His course has been obscured by no concealments. What he has found it necessary to do, has been openly done, and his methods of action have been revealed to the world with a freedom far in advance of habitual Japanese usage. In the matter of the currency, his plans have been fairly well known to all who desired to become acquainted with them. It is quite certain that a reckless over-issue of paper was not a part of these plans. That the issue would reach such

This position reasserted.

Qualifications of the finance minister.

His plans with regard to the currency.

Variations in prices caused by alarm spread by foreigners.

Prices not affected by exchange fluctuations.

Tokio Times led into explanations by misplaced confidence.

a point as to justly imperil the public credit was not within intelligent belief. It is open to doubt if it would have been marked by a single variation in the price of commodities, had not the extravagant portents of foreign organs, and of their few Japanese followers, created a momentary sense of insecurity which, spreading from this center, influenced in some degree the trade of the country. As it is, the changes have been trifling, and in most cases merely nominal. While Mexicans, which the disaffected pretend to look upon as the index to the situation, have been lifted to a premium of twenty-five per cent., have dropped back to fourteen, afterward to be forced up to thirty, again to fall to fourteen and again to rise to twenty,—the price of necessaries of life has augmented in so comparatively slight a measure as hardly to be felt by the poorest. We are ready to admit that any increase of the kind, however insignificant or transient, is to be regretted; but when the wild and persistent prophecies of swift coming evil are compared with the actual result, it will be obvious that the threatened epoch of universal despair is not advancing upon us with the rapidity which those who invited it may have desired.

Toward the end of last November, misled by a wholly misplaced confidence in the honor of a Yokohama newspaper, we were at some pains to respond to an apparently candid inquiry respecting the condition of the currency at that date. The journal in question induced us to believe that if an authentic statement of the amount in circulation were given, and if the figures failed to support the antagonistic opinions it had expressed, it would adopt a different course from that which it had previously pursued.⁽¹⁰⁾ With regard to its after behavior, we need only now remark that the promise was repudiated as soon as it appeared that the facts were totally at variance with our contemporary's cherished theories. We revert to that incident, to-day, in order to show that the statement we were then authorized to make, has

(10) The language of the *Japan Gazette* was as follows:—"If the *Tokio Times* can bring forward some reasonable grounds why the public confidence should not be shaken, a vast service will be rendered to Japan, and we shall not hesitate to do all in our power to support anything of a reassuring character; and if examination shows us to be in error, no time will be lost in recantation and correction."

already been realized in its most important particular. The principal excuse for anxiety, it was commonly declared by the agitators, was the unlimited issue of national bank notes, which, they alleged, gave signs of indefinite multiplication. With regard to the government *satsu*, their aspersions were sufficiently kept in check by the official report of the finance minister; but in denouncing the national bank expansion, they felt themselves safe. The announcement in the *TOKIO TIMES* of November 23rd, however, left them no resource but to proclaim a positive disbelief in the honesty of the financial authorities,—which they preferred to do, rather than acknowledge their animadversions to have been groundless. We related, in brief, that under the national bank system thirteen millions of yen were in circulation at the end of 1877; that at the time of writing the amount in circulation was yen 24,361,390: and that the entire issue would not be allowed to exceed thirty-six millions. This last detail, which alone should have been sufficient to cleanse away the “perilous stuff” that the alarmists had been administering for successive weeks, was rejected by their leaders and organs as utterly unworthy of credence. They had asked for a reassuring statement, and when they got it, would have nothing to do with it, except to endeavor to invalidate it by mean suspicions. It is, therefore, especially gratifying to announce that in limiting the creation of national banks, the minister has been even better than his word. After this month, no more of these institutions will be established.⁽¹¹⁾ The amount of paper issued by them up to last week was yen 28,146,106. The entire amount to be in circulation, after this week, will be yen 34,400,000. That represents the whole sum of their contributions to the currency of the empire. We leave the previous cohort of calumniators to make what mischief they can of it, having no fear of any coöperation they can derive from figures with so little that is startling about them.

Information
given by the
Tokio Times.

Its reassuring
statement
received with
incredulity.

(11) This article was dated March 1st, 1879. Subsequently to that date, no less than twenty-six banks, namely numbers 66, 70, 86, 89, 106, 121-2, 129, 131-3 135-7, 141-3, and 150-3, were established, their capitals aggregating 2,875,000 yen with note issues of 2,189,000 yen.

PAPER CURRENCY.

Japan Gazette, March 8, 1879.

Necessity for
examining the
real condition
of affairs.

Many contradictory versions of the effect upon the national credit likely to result from the depreciation in currency have recently been put forward, but none of the writers have had the courage to examine, impartially and justly, the real position of affairs. For many months past a feeling of great anxiety has prevailed among all classes respecting the possible redemption of the government issue of *satsu*. The matter was discussed in the Japanese journals before any foreign newspaper had referred to the questions of excessive issue, and want of means to redeem any large portion of that issue. Previous to the outbreak of the southern insurrection the persistency with which paper was annually drifting into circulation had attracted considerable attention among the more intelligent classes of the people, who viewed the measure with alarm.

Statements
recently made.

A recent article in a foreign journal, written with some show of authority, fixed the amount of paper in circulation at 155,327,209 yen; a sum stated to be by no means excessive or startling. The policy of the finance minister is described as having hitherto been free from obscurity or concealment, while his methods of action have been revealed to the world with a freedom far in advance of habitual Japanese usage. Finally it is said that, notwithstanding the fluctuations of currency, the price of necessities of life has augmented in so comparatively slight a measure as hardly to be felt by the poorest.

Unsatisfactory
character of
these state-
ments.

We are bound to accept the statements contained in the article referred to as based upon the authority of the finance minister, who, apparently, prefers to evade simple answers to direct questions by intimating, indirectly, and unofficially, that the bases of the anxiety of the people in regard to the currency are in great part justified. But notwithstanding the candid avowal of the issue of 155,327,209 yen, and with every respect for the veracity and integrity of the finance minister, something more definite is wanted. The people will continue to believe, and it is quite natural that they should do so, that the finance minister is not certain as to his figures. The notes are unnumbered; the records are reported to have been lost

Reasons for
dissatisfaction.

or destroyed, and there is the damaging denial, made by his excellency Okuma, of the assertions of Messrs. Shibusawa and Inouye Kawaoru, who together estimated the national liability for foreign and internal debt, inclusive of paper money, at 120,000,000 yen, a sum certainly not then over-stated. His excellency will be aware that all this is matter of public belief: and if it be also a fact that no person will accept an account, or national financial statement, without substantial proof, he cannot fail to understand that the impression of over-issue is not likely to be removed by anything short of a public investigation into the circulation, and the recall of the present objectionable government note.

Our correspondent M. assessed the circulation at 150,000,000 has 150,000,000 yen, which he considered to be so excessive been taken as the issue. as to carry with it an inevitable depreciation. The principle is clear that inconvertible notes may do good work. "When the debt is thoroughly trusted, and when no more of these inconvertible notes are issued than the public requires for actual use, and consequently which it feels no desire to send in for payment. * * *

"But the situation became vitiated at its very core when too many notes were issued. Their fall of value went on to the extent that a sovereign became worth twenty-seven shillings in notes." Until a few years ago *satsu* held their ground at a mere nominal difference in exchange for specie. The debt was thoroughly trusted; and as the requirements for actual use were not exceeded, depreciation, in the proper sense of the word, was not possible. But the temptation to continue the issue was irresistible: the government had taken their stand on the slippery ground of promises which need not be paid, and they were oblivious to the consequences of possible depreciation. The increase caused by the southern insurrection was justifiable on the principle that there are occasions when the safety of a nation may be involved in the alternative. During the year 1877, the first issue of national bank notes took place, and some 13,000,000 yen of private paper, secured by a deposit of government paper, was added to the circulation and sensibly, though slowly, affected the value of the whole. During 1878 a similar amount appears to have been put into circulation, and as a matter of fact, the issue of these notes is still going on unchecked.

The debt was trusted at first, but the temptation to over-issue was irresistible.

First issue of national bank notes made in 1877.

Continuation
of the issue.
Attempts to
revive public
confidence.

In the *Nichi Nichi Shinbun* of the 3rd instant [March 1879] appeared a notification authorizing six further banks to put their notes into circulation. While the floating debt is thus being steadily increased, the finance minister attempts to revive public confidence by semi-official statements to the effect that he has been even better than his word in limiting the creation of national banks, and that no more of these institutions will be established after this month.⁽¹²⁾ If the prophecy should be verified by subsequent events the public will have reason to rejoice at the abolition of a dangerous and most pernicious practice—the circulation by a government of inconvertible notes through the agency of private banking establishments. If it should not be verified,—the finance minister is not responsible for paragraphs in a newspaper! The consequence is, that in the absence of more authoritative data, no one can accept as trustworthy statements at variance with the everyday realities of the past two years.

More authori-
tative data
required.

Excessive bank
issue noticed
months ago.

The excessive issue of the national banks was noticed many months ago, when it was stated that the country could then take no more new paper without depreciating the whole issue by at least the equivalent of the extra sum put into circulation. This argument was supported by the relative prices of specie and paper at that date; and we submit that subsequent events have more than justified the assertion then made. So long as the government are content to hazard their reputation and credit by giving countenance to a most injurious and unjust increase of state liability, so long will *satsu* pursue their downward course, until the whole country is involved in the disaster which must follow the collapse of the currency. While on this subject we must repeat what has already been said:—If the government cannot, or if they refuse to make a declaration expressly prohibiting the national banks' issue, people will consider themselves entitled to persist in their belief that paper money is continually on the increase.

Depreciation
declared to be
inevitable.

Public opinion.

Advance in
prices.

With regard to the broad statement that the price of necessaries has not increased so much as to be felt by the poor, we should only be too happy to support it could we attach the least faith to its accuracy. It is generally admitted that an advance of very considerable magnitude has taken place in the retailers' prices, and

(12) *Vide* note page 168.

this more especially in the vicinity of large cities. The Nonsense written and talked about Mexican dollars; *their* rise and fall: of combinations to check the importation of foreign goods: of the paper note not being a promise to pay when it distinctly bears upon its face, in large characters, the words "Dai Nippon. Okurasho. One *Gold Yen*," and such like folly, requires no further notice here. The people who are affected by the momentous question of depreciated national currency are not to be deceived by verbal niceties, and fine-drawn distinctions. They recognize the great fact of a steady and natural decline in a currency vastly in excess of the wants of the country; and they are inclined to listen with respect and attention to, and to support any moderate and sensible measures tending to a gradual, but thorough, reversal of the mad financial policy of Japan.

Real state of the case.

In conclusion let us honestly warn the statesmen of Japan not to be carried away by the success with which the United States is redeeming the national liability. The resources of that country are enormous: there is a life and vigour in the people that rise with the difficulties of their position; and the wealth of the land is always being searched for and, when found, instantly developed. In the words of Mr. Boutwell, "The ability of the country to resume specie payments is not due to legislation, but to a condition of affairs which laws could neither create nor prevent. The suspension of railway-building, the discovery of dynamite, and the invention of the Burleigh drill are the contributors of chief force to the present financial condition of the country; and dynamite and the power-drill will remain as aids to the government in maintaining specie payments."

The example of the United States fallacious in its application to Japan.

Japan, unfortunately, has no trade: her resources are dormant and unknown: and her laws effectually preclude the increase of public wealth: nevertheless the people have to support the burden of a monstrously excessive, and absolutely inconvertible paper-currency, which they daily find is increasing in amount and decreasing in purchasing power, without the slightest assurance that the disgraceful abuse is to be checked or controlled.

THE CURRENCY.

Japan Gazette, May 31, 1879.

Currency
speculations.

The actions of the syndicate engaged in speculations in Japanese currency are peculiar, and the effect of their operations is, for the moment, a source of considerable surprise to all those who know that the causes which forced *satsu* to 40 per cent. discount with gold *yen* in February last, continue with greater force now when the difference between gold and paper is nominally only 26 per cent. This increase in the specie value of paper is factitious, and, however desirous we may be to maintain the currency at a fair rate of exchange, we cannot fail to perceive danger in the present position of affairs.

Mr. Mounsey's
report.

Mr. Mounsey, lately secretary to H. B. M.'s legation in Tokio, in his report on the financial statement of 1878-79, refers at some length to the finance minister's scheme for the redemption of the debt, adding,—

Fresh financial
scheme.

"There is another feature in this scheme which requires notice. The minister of finance does not give a single word of explanation regarding it, but it is of such importance that his excellency may perhaps be justified, notwithstanding my previous remarks, in prefixing the epithet 'fresh' to his scheme. I refer to his proposal to redeem the paper money. How are 120,000,000 of paper *yen* = 24,000,000*l.* to be redeemed in twenty-eight years in a country from which there has been a constant and large outflow of coin and bullion for many years past?"

Causes of the
drain of bullion.

The outflow of bullion here alluded to has been considerable but on government not on trade account. The relative values of imports and exports for ten years ending with 1877, show a balance of nearly 40,000,000 dollars which this country is erroneously supposed to have made good in specie. This is the contention of the balance of trade theorists which has been conclusively disposed of in these columns on many previous occasions. The real causes of the outflow of bullion have been, since the establishment of the present administration, the large sums disbursed for vessels of war, merchant ships, naval and military equipments, and other necessary and unnecessary importations on government account not included in the returns compiled by the customs. To this sum must be added the charges abroad contingent upon the establish-

Charges for
legations and
consulates, &c.

ment and maintenance of legations and consulates, interest on the foreign debt, and other unavoidable demands for specie. Part of these expenses are supposed to have been met of late by the proceeds of produce, chiefly rice, exported for sale on account of the government, and any attempt to estimate the amount of the liabilities which the government have had to provide for in coin can only be surmised; but it is probably not an exaggerated approximation to say that 40,000,000 dollars more have been spent for the purposes mentioned. If this should be correct Japan has had to provide £16,000,000 sterling in specie during the past ten years, a sum which would tax the resources of a country far richer in productive power than is Japan.

Specie value
£16,000,000
sterling export-
ed in ten years.

With the exception of an abnormal importation of rice in the years of short native crops, 1869-70, amounting to about \$17,000,000, the balance of trade, and consequent drain of bullion, are due solely to government needs. The commerce of Japan proper is so evenly balanced that it fulfils the strictest conditions of barter; that is, the quantity of imports are quite dependent upon the yield of Japanese produce to exchange for them.

Trade shows no
balance,

In a later paragraph Mr. Mounsey again refers to the currency in the following words:—

“This subject, so intimately connected with Japanese finance, has become much complicated since the date of my first report, 2nd March, 1877, by the establishment of a large number of national banks. There are now 133 of these institutions in different parts of the country, and the aggregate of their issues of notes is stated by the ministry of finance to be about 23,000,000 yen. Thus the total amount of paper money now in circulation is 143,000,000 yen, and, apparently in consequence of this inflation, yen are now at a discount of 11 per cent.”

Mr. Mounsey's
reference to the
banks and their
note issues.

Mr. Mounsey's report was written in September 1878, since when the amount of paper in circulation has been considerably increased. The position appears to be:—

Paper money in circulation as stated in the financial report September 1878	} Yen 120,927,207
Note issue of 141 National Banks	
	31,072,880
Total paper in circulation.....	<u>152,000,089</u>

Suggestions to limit the banks' note issues disregarded.

H. E. Okuma's financial policy distrusted.

or an increase of nine millions upon the amount stated to be in circulation by Mr. Mounsey.

Various attempts have been made to induce the finance minister to declare that the issues of the national banks should be discontinued, but without success; and in consequence of the issue of late notifications there is reason to believe that the process of steady "inflation" may be continued at the pleasure of the *Okura-kio*.

It is not too much to aver that the financial policy of his excellency Okuma has not gained either the respect or the confidence of foreigners, while among the Japanese people it is generally distrusted. His excellency's vacillation respecting the total issue of paper; his denial of yesterday, his admission of to-day, and his refusal to reply to, or indeed to notice simple questions which it is his duty, as a servant of the people, to answer, has created a feeling of dissatisfaction and distrust to which the decline in the value of paper is partly attributable. It is, however, due to him to say that the recent appropriation of a portion of the small reserve of specie contained in the treasury for the purpose of putting a stop to the rapid depreciation, has had a good effect in punishing a clique of gambling speculators, whose operations in the money market have been conducted upon the principle of obtaining a large profit for themselves by intentionally throwing discredit upon, and doing material injury to the reputation of Japanese currency.

The mere fact that the government are in a position which permits them to enter the market and redeem, with gold or silver specie, such amounts of their own currency as may be offered at a discount greater than, say, a limit of 15 per cent., inspires the people with a feeling of confidence which does good; but this power cannot be exercised on many more occasions without exhausting the treasury of what is now a mere trifle of actual coin.

100,000,000 yen in paper has been used at par;

It seems to be admitted that the equivalent of thirty millions of pounds sterling forms a currency at least one-third greater than this country requires for all purposes of internal exchange and barter. One hundred million of yen the country has been able to use and maintain at a small discount, if not at par with specie. The issue of 27,000,000 yen in 1877 was so

far justifiable as any human circumstances can justify the issue of an irredeemable currency, but that extra sum was unquestionably the origin of the first serious depreciation of the whole. That extra issue was put into circulation by the government, who defrayed with it part of the demands made upon them by the insurrection. When that sum was absorbed into the general circulation people began to find that there was more "money" than was required for actual purposes. This surplus, incorrectly styled money, has no outlet; it works only in one way; it cannot be sent back again to its sources, for there is nothing to redeem the promise of payment. A promise to give is not, and cannot be, the thing itself. Neither a government token, "a national bank note, nor a cheque, nor a bill, nor a credit, nor a power of drawing is money, is payment; it does not put property into a man's hand, till the coin distinctly mentioned is given. The thing promised may never be paid at all; and the thing promised is money," and by money we mean gold, silver, or metal, or produce, or other tangible substances which shall be marketable in any part of the world; which shall represent, in fact, the positive equivalent of the articles given away in exchange for them. With each successive issue of the newly-established national banks the depreciation gradually increased. The supply of paper exceeded the demand; no one had any use for it in this country, and there was no employment for it abroad; consequently all holders were anxious to part with the surplus which lay useless in their hands; but, finding no outlet, no possible chance of disposing of it, they consented to give it away at a loss. *"They submit to a discount, and there is no limit to that discount, if the inconvertible issues are continued."*

but when that sum was exceeded depreciation began.

There can be no greater burden to a country than a depreciated issue of inconvertible currency. It is the root and foundation of all evil. The man, however loyal he may be in intention, who parts with the fruits of his labour, his property, for what he afterwards finds is nothing but a worthless promise to pay, sows the first seeds of disaffection, while he acquires a deep and even deadly resentment towards all those responsible for the hard toil and labour which he has been deluded into giving away for mere idle promises that can never be fulfilled.

Depreciated currency is the root of all evil.

A radical change
in financial
policy necessary.

It is for the men of this country to be firm in their demand for a radical change in the financial policy of the empire. They cannot learn too soon that it is not the fanciful excess of imports which impoverishes, but the drain of specie for governmental expenditure which must be checked and controlled if a national disaster is to be averted. It is essentially necessary to recognize the incontrovertible truth that paper money has been issued in excess of the nation's requirements, and that a proportionate equalizing depreciation is inevitable which no limitation of exchange banks, establishment of government-supported *shoshas*, nor government purchases of two or three million yen for specie, can do aught but temporarily delay and increase the evil by endowing the currency with a factitious value to which it has not the slightest intrinsic pretension.

The interests
of the people
sacrificed for the
benefit of the
few.

It is painful to behold this country's trade prostituted to gratify the voracity of the few; its commerce crippled, the industry of the people dammed up, their energy baffled in hopeless attempts at competition, and the national resources drained and exhausted:—and for what purpose? The Japanese people must themselves answer this question; we have performed our duty by exposing the vicious system which vests in the hands of officials the sole power of commerce and trade; which nourishes associations so pernicious in their effects upon the people as those which control and monopolise the coastwise, rice, and fishery trades, and encourages the establishment of national banks for the dissemination of further paper and to be the cause of further depression, anxiety, and apprehension.

Value of paper
as it should be
in May 1879.

The depreciation of the currency is an inevitable conclusion, but there is no cause for undue alarm. The over-issue must find its level, which is about thirty-three per cent. discount for silver.

The only re-
medy for main-
taining the pre-
sent quotation
of 115.

Present quotations are artificial and cannot be maintained unless the finance minister is in a position to *purchase*, and *withdraw from circulation*, at least twenty-five million yen of *satsu*. Until that is done the people must learn to bear the depreciation, and to attribute it to its real cause, over-issue, instead of unwisely deceiving themselves by believing that Japan is capable of supporting an issue of thirty millions of pounds in paper currency, an amount which a much richer country could not maintain at par with specie.

CHAPTER V.

Mr. P. MAYET, a gentleman in the service of the government, who had some months previously formulated a scheme supported by elaborate statistics for a system of national fire insurance under government auspices, prepared a paper which was read before the *Deutsches Gesellschaft für Natur-und Völkerkunde Ostasiens* in May 1878, in which the author undertook to prove, by an arrangement of figures, that the national debt of Japan, including paper money, could be liquidated within twenty-eight years without any increase of income or diminution of expenditure. The scheme was, of course, chimerical; and would have deserved little attention had it not been previously gravely adopted and put forward by H. E. Okuma as the remedy the government proposed for their indebtedness. The scheme, shortly stated, was this:—In July 1878 the total debt was 375½ millions of yen, about two-thirds bearing interest at varying per centages, and the remainder being currency without interest. Interest annually paid was about 16,000,000 yen, and a sinking fund of about 5,000,000 yen was provided each year.

Therefore, [wrote H.E. Okuma to the prime minister], I have devised a new method, whereby to liquidate the indebtedness of the government. I propose that twenty million yen should be annually appropriated from the national revenue and together with the interest accruing from the reserve fund, be applied to this purpose. The said scheme is to come into operation this year and continue in force for twenty-eight years, by which time the whole of the debt will be defrayed.

This scheme did not meet with any public confidence; the ability of the government to carry out their promises when the only currency the country possessed was inconvertible paper, was openly doubted, and for the sufficient reason that no recognition was made of the

Mr. Mayet's paper on the liquidation of the national debt.

H. E. Okuma on the same subject.

No public confidence felt in either.

Last financial statement shows large reduction in debt.

Value of revenue in currency.

then depreciation of paper, or provision for its further decline in relation to commodities. These doubts Mr. Mayet undertook to combat, the result being an exhaustive report in which he endeavoured to prove the possibility of liquidation of all debt, and the redemption of 120 millions of paper within the specified period. Strange to say the last financial statement⁽¹³⁾ shows that with the revenue of the past four years of almost equal mean nominal amount, the total debt has been reduced by 22,821,889 yen, inclusive of 15,000,000 of paper money said to have been withdrawn from circulation; while the "reserve fund" is actually increased. Had the nominal revenue represented real value, this reduction could be explained: but assuming the government to be affected by the depreciation of currency equally with the people; to be subject to the rise of prices for commodities and labour, there was a marked decrease in revenue without a corresponding decrease in expenditure. In 1876 the value of currency was *par*; in 1877, 106; in 1878, 117; in 1879, 133; in 1880, 150; in 1881, 170. Dealing with the last four years, 1878-79 to 1881-82, the figures given in the financial statements show a mean income of 68,899,842 yen, to meet a mean expenditure of 62,488,239 yen. If the expenditure had been yearly reduced to meet the depreciation, the accounts might have been balanced in the manner shown; but that was practically impossible. The consequence is, that to meet a mean expenditure of 62,488,239 annually, the income, reduced by depreciation, has been respectively, 54,136,190 in 1878; 47,628,566 in 1879; 42,226,228 in 1880; and 37,258,488 in 1881. To equalize this depreciation expenditure ought to have been reduced 19.2 per cent. in 1878, 28.7 per cent. in 1879, 32.3 per cent. in 1880, and

(13) *Report of the finance minister of the Japanese government, July 1881 to June 1882, Published November 1881.*

40.3 per cent. in 1881. The national accounts are stated in currency; and an obvious example is that amortization and interest of foreign debt, 1,998,060 yen silver, in 1878 could have been liquidated with 2,331,880 in currency; while the reduced charge amounting to 1,586,142 yen silver in 1881 required 2,696,441 in currency. The rise of prices renders the same rule applicable to all liabilities, domestic as well as foreign; and the reduction of debt, and increase of "reserve fund," are wholly unintelligible under the disadvantages inseparable from so grave a depreciation of the national currency.

The questions asked by Mr. Mayet, and replied to by the *Japan Gazette*, were the following:—

Effect of depreciation on expenditure.

Questions propounded by Mr. Mayet.

1. Does the debt reduce the debtor to an oppressive state of dependency?
2. Is the rate of interest excessive?
3. What has been obtained by means of the debt?
4. What are the means of liquidation?
5. Is the debt profitable, or is it onerous?

This redemption scheme is treated at some length, because it forms a fair example of the many other propositions by which the certain liquidation of the state liabilities was shown to be easy and certain—if the creditors would only have patience and confidence, and the debtors had money, or real value to give for their obligations.

THE NATIONAL DEBT OF JAPAN.⁽¹⁴⁾

Japan Gazette, June 14, 1879.

We are indebted, and now beg to record our acknowledgments to Mr. Mayet for his courtesy in placing at our disposal the printed sheets of his paper upon this

Mr. Mayet's paper its length and nature.

(14) A lecture delivered before the Deutsches Gesellschaft für Natur- und Völkerkunde Ostasiens, by P. Mayet. Translated by the *Japan Weekly Mail*, June 7th, 1879.

subject. Two causes materially interfered with its reproduction in these columns, namely, the difficulty of translating from the language in which it is written, German, into English, and its great length which would require space equal to eighty pages (of this size), of closely printed matter. Within this limited scope Mr. Mayet has undertaken to demonstrate certain financial problems intimately related to the future of this country. Entering at once upon the subject of that paper we find that the national debt of Japan amounts to three hundred and seventy-five million yen admitted by the finance minister, and to the five questions proposed by Mr. Mayet we are content to answer simply, and in categorical order:—

1. If the word "debtor" is understood to mean the present Japanese government generally, or his excellency Okuma the finance minister in particular;—No.

2. The rate of interest, instead of being excessive, is less than one-third of the rate current in Japan.

3. A burden from which there is no extrication under the present conditions of financial mismanagement.

4. We repeat the question. A satisfactory answer to this would resolve all the others.

5. Can only be answered in the distant future.

Foreign debt.

Domestic debt.

The money due to foreign countries is the merest trifle which cannot, under any conceivable circumstances, interfere with the independence of Japan. But if the liability of the state to its people for value received from them be considered, the debt is so oppressive, and the possibility of its discharge so remote, that it forms a burden of such magnitude that the future of the nation truly depends upon the measures to be adopted for its liquidation. The value of Mr. Mayet's paper must be estimated solely with regard to the success with which he has been able to explain by what means the national liability can be liquidated. We submit that to follow the author through a multitude of tabulated figures is but to follow him through all the confusing elements of his essay. The facts are so simple, taken by themselves, that the ordinary observer

The facts of the position.

cannot fail to comprehend the position almost at a glance. The government have bound themselves to redeem, within varying terms not exceeding thirty years from 1876, nearly 245,000,000 yen of the state liability. The balance of their indebtedness is chiefly for paper money, and amounts to, inclusive of the issue of the national banks, and exclusive of 27,000,000 yen comprised in the sum promised to be repaid within a specified term, about 153,000,000 yen. For purposes of liquidation the country possesses, upon Mr. Mayet's calculation, \$1,937,727 yen in specie. In dealing with this intricate part of his paper, Mr. Mayet cautiously adds "to judge from the rarity of gold and silver coin in circulation, the thirty-two millions of precious metals are mostly treasured and looked up by prudent people, and so far withdrawn from circulation. I scarcely believe that there are in circulation twelve millions of precious metals, both large and small coin included." We had hoped that Mr. Mayet would have thrown some light upon the question of chief and vital importance in regard to the subject he ventures to deal with. He has come before the public undertaking to demonstrate that to discharge a liability of 375,250,000 yen is not merely theoretically possible, but that "the liquidation of the total Japanese national debt of 375½ million yen, which also includes the paper-money, may be completely accomplished in somewhat less than 27½ years, and that *without any increase in taxes, without using the reserve fund and without any diminution in the former capacity to meet extraordinary expenses,*" and, while making this emphatic and truly astounding assertion, he omits, negligently or from indifference, to state the amount of specie held by the government in reserve *even against their liabilities for paper money only!* Are we to understand that of twelve million yen of specie in circulation the treasury holds all or a portion only? The amount is so small that the question is scarcely material. The estimated quantity of specie in the hands of the government is known to be reduced to such a mere nominal sum, and assuming that all the precious metals in the country not hoarded "by prudent people" form part of the reserve fund, the position of the state is as follows:—

Government obligations.

Specie in the country.

and in circulation.

What Mr. Mayet undertakes to demonstrate.

He omits to state amount of specie held against paper.

CURRENCY.

The true
position.

LIABILITIES.

Due to unsecured creditors, and to be deemed within twenty-eight years from 1878.....	Yen 254,333,147
Paper money issued under promise of redemption within fifteen years	27,000,000
Paper money issued without defined period of redemption	93,927,209
Guaranteed issues of the national banks...	22,958,240
Total.....	Yen 398,208,596

ASSETS.

Held in reserve by the treasury, and loans due to the state on 30 June, 1878 ...	Yen 63,270,717
--	----------------

Of this last sum, as will be seen hereafter, not more than two-fifths can be relied upon as "surplus" funds, three-fifths being revenue received and not then, but which since has been, disbursed for national expenditure for the period for which it was collected. In stating 27,000,000 yen as "surplus" we make a liberal allowance.⁽¹⁵⁾

And of that sum paper	Yen 15,000,000
" " specie	12,000,000
Bonds deposited by the national banks to secure their note issues	22,958,240
Total.....	Yen 49,958,240

Deficit Yen 348,250,356

Liabilities and
assets.

A more exact method of stating the deficit is to reduce the liability by the amount of paper money and bonds in possession of the government, and which must be treated for these purposes as retired liabilities on a given date. If this be done it will be found that the state liability is 360,250,356 yen, and the assets 12,000,000 yen only, sufficient to redeem about three and one-third per cent. of the liability.

(15) The "reserve fund" was not then understood. It has since been shown to be a mere cash balance. (*Vide* pages 90-91).

This position, gathered from the figures furnished by Mr. Mayet, must have been contemplated by him, for he assures us, as the result of his complete inquiry, that the whole liability of Japan, inclusive of paper money, may be completely liquidated within the period of a solar cycle. This assertion Mr. Mayet does not consider weakened by the facts he has proved to his own satisfaction, namely, that the country is almost drained of specie, and that the balance of trade has, of late years, been materially against Japan. This may be a paradox; we confess our inability to understand how the debt of Japan can ever be liquidated without specie. Mr. Mounsey, referring to the finance minister's proposition to liquidate, says, "How are 120,000,000 of "paper yen=24,000,000*l.* to be redeemed in twenty-eight years in a country from which there has been a "constant and large outflow of coin and bullion for "many years past?"⁽¹⁶⁾ Mr. Mayet clearly shows that specie is exhausted; that the demand for specie to pay for imports continues, and yet he declares that Japan is able to discharge her heavy indebtedness to the people without *money*, and without any means of obtaining it! Further criticism of this portion of the paper is unnecessary. Mr. Mayet avers that the debt may be liquidated in the time specified; we meet the assertion by saying that if the finance minister can set aside a constant sum of 21,199,056 yen annually, and if he can also provide *specie* sufficient to redeem the liability for *kinsatsu*, for which at present there is no provision whatever, his object will be gratified, and the national liability will be extinguished: but as the power of procuring sufficient specie for the redemption of paper without borrowing from abroad does not exist under present conditions, the extinction of the debt in any number of years, however simple it may appear in theory, is, in practice, an impossibility.

Mr. Mayet
undertakes
liquidation
without specie.

What the Japan
Gazette asserted.

We have no intention of impugning the accuracy of Mr. Mayet's statistics, but we certainly must take exception to the inferences he draws from them. Relying, apparently with implicit confidence, upon the figures supposed to represent that wonderfully elastic account which is used to balance all awkward deficits, and to

Mr. Mayet's
estimation of
the "reserve
fund."

(16) Report on the financial statement, 1878-79, *Japan Gazette*, mail edition, vol. XXIII. page 298.

which all surplusages are placed, he quotes the reserve fund set out in the financial statement for the year ending June 30th, 1879, in support of the following assertion, which is prefaced by a list of thirteen classes of *extraordinary* expenses met from the ordinary revenue without making any loan.

"All the first mentioned, extraordinary, large, and "important items of expenditure, and besides—as already stated—from 31 to 33⁽¹⁷⁾ millions of yen in "reserve have consequently been covered from the "ordinary revenue during the period 1868-78, without "any increase in the national debt."

Growth of the
reserve fund.

Mr. Mayet is to some extent excusable in treating the reserve fund of 63,270,717 yen as surplus moneys, but he is not right in doing so. The ascertained reserve fund, as shown in the actual statement for the 8th year of Meiji, was 28,341,416 yen only. In the last estimate the minister says,—“An augmentation has been made to the reserve fund, by the “transfer thereto of the *surplus* revenue of the eighth “and previous years.” The *surplus* of the eighth year we know was only 279,434 yen; it is scarcely possible, it is certainly unreasonable to believe that the “previous year” could have yielded a grand *surplus* of 34,650,000 yen, though a large sum was attempted to be explained to Mr. Mounsey, who refers to it in his report published in the mail edition of this paper on the 25th November 1878, page 10. Mr. Mounsey characterized that increase in the reserve fund as “the third remarkable “feature of this year’s estimates.” If the finance minister was enabled to augment the reserve fund by *surpluses* amounting to 35,000,000 of yen where, may we ask, was this money held before it was carried into the nation’s accounts?

What is the
reserve fund?

A cursory glance at the reserve fund and its formation is excusable. His excellency Okuma says that the first financial estimates were framed in the 6th year Meiji, 1873, and that from and after that year estimates were regularly issued. Previous to the financial year 1875, “no plan existed for testing the results by an examination of the actual income and disburse-

(17) These figures appear somewhat unintelligible in the translation, but Mr. Mayet has furnished a list of *errata* in which an explanation is given.

ments"⁽¹⁸⁾ and no exact method of accounting was known, but the report of the actual revenue and expenditure for that year shows that on the 30th June 1876, the total amount of the reserve fund was 28,841,416 yen. In the statement for the year ending June, 1877, it stood at the same amount. The statement for the year ending June, 1878, shows an increase to 39,031,538 yen, and in the last estimate the amount is said to be 63,270,717 yen. If the official statement of actual revenue and expenditure for the financial year ending June 1876 is correct, all estimated expenditure to the close of that year had been defrayed, and the reserve fund really comprised the sum it is said to have contained at the date of the issue of the last estimates, June 1878, the surplus revenue in two years amounted, therefore, to no less a sum than 34,929,801 yen! Where does it come from? Mr. Mayet refers to the reserve fund and treats it as *surplus* revenue, indifferent to the fact that the annual estimates are framed in a manner which, at variance with all rules of bookkeeping, defies the most skilful accountant to trace the beginning and the end of the cash account. There is no cash account in fact. Whatever the deficiency may be, or unexplained surplus that suddenly turns up, the reserve fund is at once diminished or increased. No greater proof of this can be had than the finance minister's own words to Mr. Mounsey. His excellency Okuma clearly does not calculate upon any such surplus as that implied by the figures of the reserve fund, for, in the preface to his last estimates, he uses the following remarkable words:—"From this time 20,000,000 yen will yearly be set apart from the income of the government for twenty-eight years, in the course of which period the national debt will be paid off. The national liabilities being large the money set apart for their redemption will reach one-third of the government income, a sum so large that, in order to carry out the regulation effectively there must be careful management in reducing the annual expenditure, so as not to exceed the amount stated in the estimated tables. If the expenditure happens to be larger than that fixed in the tables, the consequence will be loss of government credit with the people and diminished circulation

Increase and
decrease of
reserve fund.

(18) *Tokio Times*, vol. V. page 73.

The "reserve fund" is merely the balance of an open account.

"of money which would bring about embarrassments of a serious character." Is it not reasonable to infer from this that if the estimated expenditure is exceeded the amount set apart for the redemption of the debt must be diminished in like proportion, and that government credit will suffer in consequence? If there should be such a surplus as Mr. Mayet declares to exist, equivalent to 3,000,000 yen annually, after deducting the amount of debt which cannot be otherwise explained away, and after full provision for the *extraordinary* expenses enumerated has been made, why should the finance minister display so much anxiety as to his power to carry out his intention to set apart, for the liquidation of the debt, a sum only 3,618,009 yen larger than that devoted to the same purpose in the previous year, and actually 2,057,768 yen less than the sums provided for the liquidation of home and foreign debts and payment of pensions in 1876, and 951,965 yen less than in 1875? In truth, the reserve fund cannot be intended to express the surplus revenue; it is, so far as a practical judgment can form an opinion, nothing more than a cash balance, representing the sums received minus the disbursements made at a given date, and bears as much relation to the surplus, or net excess of revenue, as the balance of a merchant's cash book does to the balance of his profit and loss account. Discarding for the present questions of mere probability, we may briefly refer to facts. The revenue for 1875-76 was much larger than any previously raised, so far as the figures at our disposal show. The amount actually received was in excess of the estimates by nearly 900,000 yen, while the expenditure exceeded the estimates by nearly 700,000 yen, the real result of the actual income and disbursements being a surplus of 279,484 yen only. We must bear in mind that the changed conditions of the land tax made reduction in revenue unavoidable, and the *estimated* expenditure was perforce reduced accordingly as follows:—for 1876-77 by 6,000,000 yen, 1877-78 by 17,000,000 yen, and 1878-79, by 15,000,000 yen, as compared with 1875-76. If the "surplus" for 1875-76 with a revenue of 69,500,000, was less than three-eighths per cent. only, what surplus is likely to accrue from the working of the following years, during which all possible reductions have had to be made to make the diminished income cover the estimated expenditure? Upon the

answer to this must depend, in great measure, the increase of the reserve fund.

We will not weary our readers with further reference to this matter. Mr. Mayet shows that a surplus of 31 to 32 millions has been obtained from the working of the years 1868-78, and we must be content to quote his own words of admiration in respect to this extraordinary saving. He says:—"I do not hesitate to declare this "to be quite an extraordinary feat, a feat to which, "perhaps, no parallel is to be found in history, and "which reflects the highest credit on this country, that "only the other day became open to civilization."

The trade statistics used by Mr. Mayet show that during the ten and one-half years, 1868-1877, imports amounted to 261,000,000 yen and exports to 197,000,000, or an excess of the former of 64,000,000 yen. These figures are said to be taken from the custom house reports, but they vary so materially with the reports furnished by H. B. M. consuls in Japan that one of these sources of information must be untrustworthy. There is no agreement between the figures of any one year, and the total of the exports given by Mr. Mayet are less than the consular returns for ten years, 1868-1877, 2,500,000; the imports are in excess by 24,300,000 yen. The extra half-year is not sufficient to account for these discrepancies.

Without following Mr. Mayet's observations upon the trade of Japan, and the irregular and unwarrantable deduction that the tariff convention of 1866 is responsible for the complete exhaustion of the bullion at the disposal of the nation, we will offer a few remarks of our own upon Japanese commerce, even at the risk of repeating matter familiar to all interested in such questions.

The impartial observer of mercantile affairs in Japan should at once discard the illusive theories which have so long been urged as truisms. These theories are, first, that the "balance of trade" is against Japan; second, that the customs tariff is the means of improving the nation's resources. Both these theories we denounce as unjustifiable: we cannot qualify this epithet when we find foreign ministers solemnly quoting erroneous ideas to their governments, and foreign statisticians accepting them as axioms. The next step is to draw a distinct line between trade

Eulogy upon the savings of the government.

Statistics of trade.

Erroneous deductions corrected.

Trade as it is.

proper, that is trade conducted by merchants, and trade improper, that is trade conducted by government officials or under their direct cognizance and control. "Proper trade" is in favour of Japan. It is ruled entirely by the measure of value of the exports, and under conditions which give to the native merchant every conceivable advantage. The influences of government-sanctioned institutions limit the number of native merchants in direct dealing with foreigners. The former create a species of guild, which prevents competition among members. Japanese combine to buy; foreigners, on the contrary, compete to sell. This is in the import trade, and in the export trade the relative positions of Japanese and foreigner are reversed; the latter being always at a serious disadvantage. The customs' returns embrace the cost value of goods, and assuming the total imports of any given period to be 20,000,000 dollars, the sum the seller will receive for them must depend entirely upon the quantity and value of exports. If the latter only realise 18,000,000 dollars, the imports, which cost \$20,000,000, will be bartered away for produce worth only \$18,000,000, at a loss to the importer of \$2,000,000. The imports are lying here: financial considerations prevent their retention beyond a certain term: they must be sold: the consumer has nothing to give in return for them but a quantity of produce, and for that produce he demands imports in quantity as much larger in proportion as the nominal value of his produce bears to the total value of the supply of imports. We commend this problem to the attention of theorists and statisticians, for upon it we base the following precise assertions. Whatever influence the revised tariff of enhanced duties upon imports may have upon trade the burden will fall upon the people, the consumers, who will still have nothing but their produce to exchange for necessary imports. These imports will, by the operation of the tariff, become ten, twenty, or thirty per cent. dearer; the consumer will therefore receive, in return for his produce which he barter away, just ten, twenty, or thirty per cent. less quantity of imports. *The foreign trade of Japan, so far as statistics show, balances itself; it will always be measured by the supply of the country's surplus production. By exactly the saleable value of Japan's natural exports will the import trade be governed, irrespective of tariff conventions what-*

**The effect of
import duties on
foreign trade
with Japan.**

ever their nature may be short of their being prohibitory, until the productive power of the country is increased beyond the actual wants of the people.

We can anticipate the question of where does the specie go to. It has been steadily drained from the country, and is still being sent away in form of government shipments of rice for sale abroad, to defray the charges of the administration. It is to government trading: to the innumerable branches of official expenditure for which specie is indispensable: to the circumstance that whatever the state obtains from foreign countries is paid for in the proportion of two metallic yen at least for one in value received: it is to these causes, and to the absence of audit and control, that the finance minister must attribute a treasury drained of specie, the national credit seriously damaged, and taxpayers religiously hoarding, and obstinately withholding from circulation, two-thirds of the small quantity of precious metals the country possesses.

What becomes of the specie.

Our self-imposed task is nearly concluded. The industry of Mr. Mayet commands respect, but the result of his labour is barren to a degree. He has analysed the financial position of the Japanese empire, and in attempting to prove impossibilities to be possible, he has shown, by an elaborate display of figures, that it is within the power of a nation to defray its liabilities with nothing except its weakened and declining credit; and he has also exposed the rottenness of the system which is now engaged in carrying on the work of financial administration by means of a system of accommodation bills, promissory notes, and unlimited acceptances, to meet which, when the cash liability upon them can no longer be evaded, the assets are practically nothing.

The result of an analysis of Mr. Mayet's paper.

DURING the month of July following the First National and Mitsui Banks were entrusted with the task of putting this scheme into operation, for it had been formally adopted by the then finance minister. The *Tokio Times* thus alluded to it:—

The redemption scheme put into operation.

A REMARKABLE DOCUMENT.

Tokio Times, August 2, 1879.

The national
debt to be extin-
guished in
twenty-six
years.

The scheme for the redemption of the Japanese national debt, which we publish in this issue of the *Tokio Times*, was promised last year by the finance minister, in whose department it has been carefully elaborated. It is now published by the First National and the Mitsui Banks, which have the charge of the operation. The explanations are as lucid as the plan is simple. Impossibilities are not expected or predicted. Due allowance is made for the future, and it is admitted that the successful consummation of the measures proposed is dependent upon the preservation of peace and the adherence of the government to principles of economy. The total of the national liabilities amounts, in 1879, to yen 875,250,356. According to the device for the redemption of the national debt, the whole will be virtually extinguished in twenty-six years, or by 1905, when there will only remain of government indebtedness about three and a half millions' worth of debentures of the old domestic loan, which has not to be redeemed in full, according to the agreement with the bond-holders, until the fifty-fourth year of Meiji, or 1921. But the money for its redemption will be available in the last year of the working of Mr. Okuma's project, when Japan, if no serious commotions trouble its progress, will be in the proud and unusual position of a country without a debt at home or abroad.

Nature of the
loans to be
liquidated.

The first part of the paper is devoted to an explanation of the nature of the various loans contracted by the government, their extent, and the period at which they will be respectively redeemed. Thus, the old domestic loan now consists of less than ten million yen, the whole of which is to be refunded, as already mentioned, in 1921. But the new loan, amounting at present to twelve millions, is to be obliterated, by 1896, in drawings to be made each year or every two years, for large or small amounts, at the option of the O Kura Sho. The remainder of the funded debt comprises the various pension bonds, and the fifteen million yen borrowed from the Fifteenth National Bank toward the defrayment of the cost of putting down the Satsuma revolt. Of the foreign loans the "old," originally of one million pounds sterling, for railway purposes, has already been reduced

to four hundred thousand pounds, and will be entirely paid off in 1882. The "new" loan, contracted three years ago, has been slightly reduced by the first payment, and now stands at about two million two hundred thousand pounds. It is to be redeemed in full by 1897. As the government account stands, the only serious items of indebtedness are the Kinroku pensions, amounting to one hundred and seventy-four millions, and the paper money in circulation. On the latter subject so many and grievously malicious false statements have been made that it is satisfactory, if unnecessary, to have the unimpeachable testimony of the two most important banks in the empire as to its total, which, on the 1st of July, was nearly one hundred and twenty-one million yen. It includes the whole of the old kinsatsu recognized by government, and for the most part converted into new notes, and the twenty-seven million yen issued two years ago, and applied, together with the loan from the nobles' bank, toward the cost of the armaments necessitated by the troubles in the south.

Authoritative statement of sum of paper money in circulation.

The grand total of the liabilities of the imperial exchequer is two hundred and seventy-five million yen, to defray which, in the course of the coming twenty-six years, six hundred and twenty-six millions will be required. Of this sum more than five and a half millions are transferable in annual sums from ordinary revenue. The balance is supplied by surpluses and reserve fund, the repayment of a small loan by the colonization department and a redemption fund. With reference to the withdrawal of paper money, special attention is drawn to the fact that upward of seven million yen will be redeemed during the current fiscal year, instead of only half a million as provided in the estimates.

The total liability.

The scheme for liquidation of the whole debt allows an average of twenty-two million yen for each of the twenty-eight years over which it extends; and the latter part of the paper is occupied with a succinct, and at first glance intelligible, recapitulation of the transactions of each twelve months. The asterisks which denote the eradication of a debt do not commence to appear until the fourteenth fiscal year, where the old foreign debt is the first to vanish. Then disappear, in order and at intervals, the Chitsuroku, Kiu Shin Kuwan and Kinsatsu bonds, the latter being disposed of in the twenty-first year. In the twenty-ninth the new domestic and

Order of liquidation.

foreign loans, and the advance for the expedition to Satsuma are dropped, leaving but the Kinroku and public works loans to be obliterated in the interval between then and the thirty-eighth year, when the last sixteen million yen of paper money are withdrawn, and the three and a half million balance is provided, for the future extinction of the final obligation of the state—the old internal loan.

The project is well within the resources of the treasury.

Such is a brief sketch of Mr. Okuma's really remarkable device for freeing the nation from a debt by no means cumbersome. The realization of the project appears to be fully within the resources of the treasury; and demands only that reign of moderate prosperity and the absence of war, which, it is admitted, is essential to its success. That such a period will occur to help the hands of the ministry is to be devoutly hoped for; and, indeed, as far as human foresight can go, there is no reason why it should not be secured. Meanwhile, it is a gallant sight to see the statesmen of this brave little empire fighting for complete financial liberty, and displaying to the groaning and embarrassed chancellors of the western world the example of one people determined to apply to their public business the maxim that safety lies in freedom from pecuniary trammels.

CHAPTER VI.

Silver yen declared a legal tender.

THE close of the year 1879 witnessed the introduction of the Japanese silver yen as a legal tender, two foreign banks having agreed to accept that coin at par with the Mexican dollar, the only coin then current in the settlement of Yokohama. The influence of this measure upon the paper currency, and its bearing upon foreign trade, are discussed in a series of articles which will be found in a subsequent separate chapter. The following articles and letters will conclude the review of the causes which brought about the depreciation of the currency to a point from which there has been no substantial recovery, although fluctuation has been frequent and severe.

During the last three months of 1879 and the first four of 1880 the effect of depreciation was specially visible in foreign commerce; and considerable uneasiness prevailed at that time. Much attention was, therefore, again given to the general subject by the foreign press in the hope that the attention of the government could be aroused to the wisdom of adopting some earnest and genuine measures for reform in the financial administration of the empire; but without success. Various schemes have been put forward with the object of supplying the treasury with indispensable specie; but as their empirical character was too transparent and the inevitable reaction threatened very grave consequences, all proved abortive; and 1881 closed without the adoption of a single sound process to ameliorate the condition of the national currency.

Effect of depreciation visible in foreign commerce.

AN APPROACHING FINANCIAL CRISIS.

Japan Gazette, May 15, 1880.

That the fluctuations and steady decline in value of the paper currency of Japan should be the source of inconceivable uneasiness and alarm to the imperial government will excite no surprise, even among those who maintain that the issue is comparatively small and well within the resources of the nation to support, and, if such a course is advisable, to redeem. Advised as we are of the great anxiety felt by the ministers of the Mikado at the rapid extension of the injurious influence upon commerce of depreciated domestic credit, we cannot disguise a feeling of intense astonishment at the evident unwillingness of the authorities to deal with the matter upon sound financial principles: at their apparent determination to hazard all those expedients the utter futility of which has been placed beyond doubt by the practical experience of ages; and their evasion of the only true line of action which can in any way tend to restore the confidence of the people in the governmental promises to pay.

Futility of the expedients adopted to check depreciation.

Erroneous
nature of
impressions
respecting cause
of fluctuation.

The impressions that pervade the minds of many otherwise well informed people seem to be, that the fluctuations in currency are due to the effect of foreign trade: that the revival of ordinary export business will bring about a corresponding rise in paper; and that, had it not been for speculation now happily checked by official interference, the depreciation of seventeen days ago would never have been reached. The erroneous nature of these impressions is due to the habit of ascribing to foreign trade an influence it has never possessed. So far from being the cause of the depreciation of currency, foreign trade is responsible for that in no greater degree than it is for the increased price of rice, which now stands at famine rates in face of a harvest with a truly splendid surplus. The truth of the matter is, that the discrepancy in the relative values of silver yen and kinsatsu is due solely to the over issue of the latter, the want of power to redeem it, and the absence of confidence in the financial policy of the state.

In dealing shortly with this subject we shall rely upon the collected and digested opinions of several men of extended experience and sound business capacity; and we respectfully invite the attention of his excellency Sano Tsunetami⁽¹⁹⁾ to those propositions for reform which must, sooner or later, be carried into operation if the national credit is to be restored.

Address to the
finance minister.

In venturing to address your excellency we shall point out that the want of confidence in the financial policy of the government is due to the popular disbelief in the figures given as the total issue of the state, and the so-called national banks. It was not until after the publication of the memorable memorandum of Messrs. Inouye and Shibusawa, wherein the indebtedness of the nation was put down at a sum which, including, as it professed to do, all the liability for paper money, presented a startling total. These figures were officially denied by your excellency's distinguished predecessor, who declared the limit of governmental indebtedness to be within thirty-one and a quarter millions of yen, for home and foreign liabilities together. It was not until nearly three years later, namely, in January 1876, that his excellency Okuma admitted, for the first time, a

(19) Finance minister, and successor to H. E. Okuma. Since resigned and succeeded by H. E. Matsukata.

liability on paper currency of 94,803,819 $\frac{215}{1000}$ yen; but we look in vain through the explanatory notes of that and subsequent statements for the mode in which this fractionally exact assessment of the quantity of paper in circulation was made up. We submit, your excellency, that men of business can only be amused by assertions of this character. Incredulous in all matters of business they are absolute unbelievers in accounts unsupported by vouchers or other substantial proof, and not formally certified by responsible auditors. This public disbelief in the financial statements must be well known to H. E. Okuma, whose experience and acumen are understood. Why is it then that he has persistently adhered to the practice of publishing unaudited budgets, and sought to support his figures by semi-official statements made through the medium of the subsidised organ, the *Tokio Times*, and the reputed instrument of another department, the *Japan Mail*? The only addition to the paper issue is said to be 27,000,000 yen necessitated by the expenditure upon the insurrection in the south: and the last official estimate announces the withdrawal of a sum which reduces the circulation to 113,427,992 yen. To this must be added the notes of the national banks which make up a total of approximately one hundred and fifty million yen. If it be admitted that the quantity of government and bank paper in circulation in November 1878 was, as stated in the *Tokio Times* of November 23rd, 1878, 145,416,121 yen, it will be apparent that if the estimated specie value of that sum one and one-half years ago was 126,264,000 yen,⁽²⁰⁾ the issue of a further sum of about 5,000,000 yen in national bank notes has had the effect of depressing the value of the whole sum to 93,750,000 silver yen⁽²¹⁾; while the nominal value to-day is about 113,000,000 yen⁽²²⁾ to which it has been forced by measures to be hereafter alluded to.

A small addition to the volume causes excessive and disproportionate depreciation.

These facts speak for themselves. The evidence is conclusive that one year and a half ago an issue only three per cent. less than at present readily circulated at a moderate discount, such as might reasonably arise from the known addition of twenty-five per cent. to the

Evidence in support of the issue being in excess of the sum stated.

(20) Market rate of exchange 112 satsu per \$100.

(21) About the end of April the market rate was 160 satsu per 100 silver yen.

(22) Exchange 132.

**Effect of surplus
of specie.**

total caused by the expenses of the rebellion : and we consider the evidence is equally conclusive in favour of the belief that the circulation is now vastly in excess of the sum stated by your excellency's predecessor. This belief is strengthened by experience of the ascertained effect of over issue in other countries. If the currency be gold, no more of the coins will remain out than there is work for. When a merchant has 2,000 gold coins and finds that 1,000 will do his work, he deposits the remainder with a banker, or in a secure place ; and it temporarily disappears from circulation. But if notes are issued as they now are by the Japanese government, notes which cannot be sent back again because, instead of being a merchantable commodity like the precious metals, they are only promises to pay which cannot be redeemed, the circulation quickly expands into excessive numbers, far beyond what the exchanges of property to be effected require. Hence every holder is anxious to part with them, and finding no outlet, consents to give them away at a loss. They submit to a discount, and there is no limit to that discount, if the inconvertible issues are continued.⁽²³⁾

**What the people
require.**

Two years have elapsed since the first of a series of appeals was made to your excellency's predecessor to adopt those measures which alone can tend to create popular confidence in the ability of the government to redeem a proportion of their liability for kinsatsu. The people ask—and are not the people who are vitally affected by the financial crisis entitled to ask?—that vigorous measures shall be adopted to satisfy them upon the points following :—

1.—The total sum now in circulation.

2.—Satisfactory proof that no further issues shall be made without their approval.

3.—The suspension of the mistaken policy which has permitted a number of associations called banks to pledge the credit of the state to a note issue of thirty-six million yen.

**The position is
desperate.**

Desperate diseases require desperate remedies. Every day's delay is aggravating the embarrassments caused by the depreciation. The schemes adopted to create for the moment an artificial value for paper must all melt like snow in the sun before the one overwhelm-

(23) Professor Bonamy Price on Paper Currency.

ing fact that the quantity of specie available for currency redemption is not enough to withdraw from circulation one-tenth part of the issue. Cognizant of this fact the quotations of the exchange shosha become mere delusions. Silver may be said to be purchaseable at the rate of 110 satsu per 100 yen, but every one knows the quotation to be a delusion, because the quantity of silver available is utterly insufficient for the purpose. But while these delusive quotations entirely fail to perform the objects of their promoters, they answer purposes infinitely injurious to the nation at large. Commerce proper is superseded by 'wild cat' speculations in the rise and fall of government credit. The native merchant dare not conclude his transactions with the foreign merchant for he feels that before he can complete the resale to the consumer, and receive the proceeds in paper that paper will have fallen to a still lower depth than before the artificial reaction; and he is perfectly aware that if he seeks to protect himself by charging the consumer a price commensurate with a reasonably anticipated fall, the consumer is prevented from buying by the extravagance of the cost. This condition of affairs reacts severely upon commerce. Stocks have been steadily accumulating although a good demand exists, and sales would be gladly completed if the currency, of which there is no lack of supply, possessed a reasonable purchasing power. But it does not possess that power, and the consequence is depression in commerce of a serious character, without any indication of even temporary relief.

Exchange quotations are mere delusions.

Speculation rampant.

Effect upon commerce.

This is the condition of affairs. Every expedient that suggests itself will be tried in vain if the experience of the past is not utterly fallacious. In the name of the people we appeal to your excellency to adopt a sound and straightforward policy as the only means of preventing a financial crisis, and consequent commercial panic, which must be attended by consequences most disastrous. You have to deal no longer with a confiding people almost childlike in their simplicity, but with men of business now thoroughly alarmed at the prospect of ruin which the continued depreciation of paper must certainly bring about.

Sound policy can alone avert a crisis.

Attempt to cast upon foreign commerce the onus of depreciation.

At a meeting of the Nobles' Club held in August 1880, H. E. Iwakura addressed the members at great length, dwelling upon the embarrassed state of the finances, and attributing it to the influence of excessive importation. These statements were seized upon by the native press as a text for various attacks upon foreign commerce; all the evils that afflicted the country were declared to be the result of a drain of money to defray the "adverse balance of trade;" paper money had been issued by the government to replace the specie for necessary currency purposes; and the depreciation of that paper was due to the continued demand for specie with which to balance the ruinous excess of importation. This speech of H. E. Iwakura, erroneous in every particular, yet none the less effective, inaugurated the dislike with which foreign commerce has since been regarded, and which will require many years to overcome.

HIS EXCELLENCY IWAKURA ON FOREIGN TRADE.

Japan Gazette, August 14, 1880.

H. E. Iwakura's address.

We translate from the *Choya Shinbun* of August 5th the following passage:—

"At a recent meeting of the Nobles' Club, his Excellency Iwakura, Udaijin, president of the club, said:— 'The importation into this country far exceeds in amount the exportation; paper money has therefore lost its value, and the national finances are in a more threatening condition than ever before.'"

Its probable influence.

The meaning of this passage in the original is, that consequent upon an excess of imports, the paper currency of Japan has depreciated, and the finances of the empire are deranged. His excellency Iwakura is the most eminent member of the Mikado's government, and his opinions upon state and public affairs will probably command attention and be accepted in their fullest meaning by the people, more especially by those who are only partially acquainted with the real causes of the depreciation of satsu and the financial difficulties which

now beset the cabinet. For this reason, therefore, we feel it incumbent upon us to traverse the statements of his excellency, in order that foreign trade may be relieved of the stigma sought to be cast upon it of being the responsible cause of the fatal decline of government credit.

The grounds upon which his excellency relies are two in number:—1, that imports exceed the exports; 2, that currency is depreciated thereby. That these are fallacies we will proceed to show. Grounds relied upon by H. E. Iwakura.

The returns of trade for the past twelve years prove that so far as the trade of the people is concerned, the "balance" is non-existent, or it is in "favour" of Japan: and if the previous eight years be included, two decades of foreign commerce have brought at least twenty-five millions of silver dollars into this country. There should be deducted from this the payments for rice importation made during years of famine, and a net sum of \$7,000,000 then remains in favour of the people as the so-called balance of twenty years' of foreign trade. But the advantages that have accrued to this country from foreign intercourse cannot, with any approach to justice, be measured by the excess of imports or exports. Due consideration must be given to twenty years' expenditure of foreign residents and visitors, and the shipping that frequents the ports; to the large sums annually disbursed for wages to Japanese *employés*; for house building; for purchase of land and its rental, and the numerous other items of regular expenditure, the full benefit of which is enjoyed by the people of Japan. These disbursements from 1860 to 1879 inclusive, cannot be over-estimated at seventy-five millions of dollars, a sum which at once throws the "balance" vastly in favour of Japan. In fact, if there were no other evidences of the advantages of foreign trade, we might point out that in the suburbs of the foreign settlement of Yokohama alone, some 30,000 persons derive their daily subsistence from the crumbs that fall from the foreigners' tables. We cannot refrain from an expression of keen disappointment that an enlightened statesman, such as his excellency Iwakura professes to be, should be found to indorse in its fullest and most dangerous extent the ignorant party cry originally raised to disguise the true cause of the failure of government credit—bad financial policy—and to relieve the responsible Assertions traversed.

Trade largely in favour of Japan.

Benefits accruing from commerce.

ministers of the Mikado from the consequences of their own acts. There is nothing more opposed to the commercial progress of Japan than the persistence with which her ministers, and even her leading merchants, misrepresent the results of foreign trade. The beneficent effects of extended intercourse with the world: the incentive to industry arising from an increased demand for those commodities Japan can raise better than other countries, and the consequent employment of the idle and vicious: the rapidly growing influence of a mercantile nation: the increase of wealth: and the acquisition of abundance of the necessities of life for the least expenditure of toil; these considerations, and the countless blessings that spring from peaceful intercourse with other nations, are all ignored by those who should be the guides of the common people, and to whom it is their duty to explain the very converse of the doctrines now enunciated by one of the highest ministers of Japan.

Civilization and commerce in Japan interdependent.

Happily for this country, the gentlemen whom his excellency Iwakura addressed are not likely to be deceived by the mistaken assertion that foreign trade is the reverse of beneficial to the nation. Every advance in the arts of modern civilization, a word frequently used by the people of Japan without regard to its incongruity with the real state of the country now and of twenty years ago, is due entirely to foreign commerce. Deprived of her foreign trade which statesmen, merchants, and chambers of commerce seem to agree to denounce as injurious upon grounds devoid alike of truth and justice, Japan would sink back into her former insignificance, and disappear from the list of nations.

Foreigners should not submit to these misrepresentations in silence.

Foreigners have been too long silent, and have submitted too patiently to the misrepresentations of ignorance and prejudice. If, instead of accusing foreign trade of being the cause of currency depreciation, his excellency had pointed to the enormous sums of paper issued by the finance minister, and the monstrous privileges accorded to the national banks to inflate the currency at pleasure, and had ascribed the appreciation of all articles of domestic production to its true cause—an over-issue of inconvertible notes—he would have accused the government, the members of which are too pure and spotless, too talented and too patriotic, to have

done anything that could be injurious to Japan. The cause of the national embarrassment, says his excellency, is not a radically bad financial policy, it is foreign trade that is responsible for all the evils that have fallen upon this country. This is, in effect, what a minister of the highest rank has declared to an assemblage of educated men who, we trust, received the assertion with the derision it provoked and deserved.

HIS EXCELLENCY IWAKURA ON CURRENCY DEPRECIATION.

Japan Gazette, August 14, 1880.

Excessive importation has lessened the value of paper money, said his excellency, but he omitted to state that the excessive import is purely due to government requirements. What the government have imported they have paid for in money, and how has that money been obtained? From the ordinary sources of revenue, until the supply ran short, then by the issue of kinsatsu so long as the people would accept them in payment for supplies, or specie could be purchased on the markets. The quantity of paper thus issued, without any reserve for its redemption, was suddenly increased when the national banks bought pension bonds worth 30,000,000 yen in September 1878, from which date the appreciation of commodities began throughout the country. Satsu are in excess of the requirements of the people; there is no outlet for them; holders are willing to give them away at a discount, and there is no limit to that discount while the issue of paper continues. These are the real causes of the loss of value of paper money, though his excellency is pleased to ignore them for the purpose of casting the responsibility upon foreign trade. What is foreign trade, and what is its relation to money?

Excessive importation due to government requirements.

How the government obtained money to pay for imports.

Foreign trade is but an exchange of commodity for commodity. Let us suppose this country to export largely without importing in return any commodity except bullion, and to compel the retention of the bullion by prohibiting its re-exportation; would this country be the richer for it? Mr. Mongredien resolves the problem in this way:—

What is foreign trade?

The country would not be the richer if the currency were gold in excess, the export of which were prohibited.

"Certainly not. Let us work it out. There could be no increase of real wealth for the bullion being in over-supply in respect to the commodities it represents would fall in value in the exact proportion of such over-supply; in other words the money price of all commodities would rise in that ratio. . . . The gold and silver coins being but the counters used to represent the various objects that constitute the wealth of the country, the result of doubling the counters would be, not to increase the wealth of the country, but simply to diminish the purchasing power of the counters, and make two of them necessary to represent the same commodity which was before represented by one."

A simple illustration.

A simpler illustration of this may be given. If the money required to carry out the interchange of commodities in Japan should be one hundred millions of yen in gold, and the government should be possessors of vast supplies of that precious metal and should issue, in return for commodities and labour supplied to the state, another hundred millions of gold yen, the exportation of which is prohibited, the country would not be richer; two gold yen would have to be paid where one sufficed before; the currency would be depreciated; and under such circumstances gold would suffer equally with paper promises to pay.

How the government became debtors.

The position of Japanese finance is this:—The currency consists of a large but unknown sum of government promises to pay at an indefinite period their equivalent in gold coin. The government, therefore, are debtors for the whole sum in circulation. And how did they become debtors? For every promise given to pay one gold yen they have received and used commodities or labour worth one gold yen; they have had full consideration for every fraction they owe to the people. The government for ten years past have been great consumers: they have acquired rice for the promissory notes, and that rice has been sold abroad for specie. All the money that could be obtained in the open market in exchange for satsu has been purchased and sent away from Japan. What for? To defray the balance of foreign trade? Certainly not, for the government never trade: but to pay interest on loans: to provide ships of war and merchant vessels: to equip an army and a semi-military police: in the acquisition of large supplies of war material: to

Causes of the export of money from Japan.

construct railways, telegraphs, dockyards, and public works of other descriptions : in the maintenance of professors for high-class colleges, and of skilled foreigners in other branches of the civil service : for the expenses of legations and consulates abroad ; and, in brief, every expense inseparable from the creation of a nation out of the ruins of its former system of government. His excellency Okuma declares this great work has been performed and the cost defrayed out of the ordinary revenue, with the exception of some twenty-six million yen ; and if that is the case it reflects the highest credit upon the executive ; but in whatever way the liability for paper was incurred no one can question the general principle that the government debtors have had an equivalent for every yen they owe to the people, and that no responsibility whatever attaches to foreign trade for the natural decline of credit which was good so long as the amount of the debt did not supply a currency in excess of the ordinary requirements of the nation. Our chief anxiety so far has been to refute this assertion so wantonly made, and to relieve foreign commerce from the imputations cast upon it. We now go further, and repeat that in every respect foreign commerce has been in the highest degree beneficial to the empire. Any excess of importation as alleged, assuming such an excess to be real, is more than counter-balanced by the large aggregate sum of money disbursed by foreigners in Japan, a circumstance which has never yet been taken into consideration by the "balance of trade" theorists.

The government have had an equivalent for every paper obligation issued.

Foreign trade has been highly beneficial.

These reasons seem sufficient to relieve foreign trade of the injurious charges made against it. It is in the extension of foreign trade that relief from financial embarrassment is to be sought. The policy has been and apparently still is, to limit importation, but nothing is said of increased exportation. The advocates of the false doctrine of reduced importation seem to forget or ignore the certainty that for every one hundred yen worth of foreign articles which, by prohibition or increased duties, is prevented from coming into this country, one hundred yen worth of Japanese produce is prevented from going abroad. If the government would accord to the people freedom of trade, free coast carriage, and free intercourse with the merchants of the world, those difficulties of which

The future of Japan depends on the extension of her commerce.

the nation now justly complains would soon be swept away. Permit the agriculturist to sell his rice for money—not paper—and an instant stimulus will be given to production. The exports of silk and tea and a few other commodities measured by an annual average sum of twenty millions of yen, will rapidly increase: there will then be an influx of capital which will for some few years be applied in the restoration of the national credit by payment of taxes in specie to be partly applied by the government in the redemption of currency. The currency once adjusted, capital, in Japan as elsewhere, must have an outlet and as productions for export increase the import of commodities will increase in due ratio, and the trade of the empire will improve so speedily that Japan may, under reformed commercial policy, with some justice claim to rank as a commercial nation, a title to which, at present, she has not the shadow of a claim.

Pressure of
depreciation in
the summer of
1880.

DURING the summer and autumn of 1880 the pressure upon trade consequent on the continued depreciation of currency induced the Hiogo and Osaka Chamber of Commerce to memorialise the representatives of foreign powers on the subject. As this document subsequently induced H. E. Okuma to express his views upon the connection between commerce and currency it is necessarily introduced here.

To the Minister for ——— in Japan.

Tokio.

Memorial of the
Hiogo and
Osaka Chamber
of Commerce.

SIR:—At a special meeting of the Hiogo and Osaka general chamber of commerce, I was authorized to request your excellency, when opportunity offers, to direct the notice of his excellency the minister of finance to the obstruction to business, injurious alike to Japanese and foreigners, caused by constant and violent fluctuations in the price of paper money. For a considerable period much difficulty has been experienced in consequence of these variations in value, and we have long looked, but in vain, for some comprehensive effort on the part of his excellency to place the circulation of

kinsatsu on a sound financial basis. It is not for us to suggest how this object is to be attained. It will be sufficient to show briefly how much injury to trade is occasioned by the instability of which we complain.

His excellency's interest in the commerce of the country and his warm sympathy with its reputation and success, are widely known, and we are satisfied that, if it is proved that legitimate business is here hampered and hindered by causes beyond the control of either Japanese or foreign merchants, he will devote immediate attention to this most important subject.

Since the opening of the ports of Hiogo and Osaka the import trade—at a season, too, when activity should naturally prevail—has never been in such a disorganized and unsatisfactory condition as it is at present.

Large quantities of goods contracted for by Japanese have still to be taken delivery of, and there can be no doubt that the state of *kinsatsu*, and not any deliberate intention on the part of native merchants to break their engagements, is the cause of this unfortunate interruption to business.

Most importers are ready to grant any reasonable delay to their constituents to prevent loss, but they have none the less reason to complain of the necessity for such forbearance.

It should also be mentioned that most arbitrary and objectionable measures have been taken by the leading piece goods merchants of Osaka, who have formed a powerful combination with the view of preventing dealers from taking delivery or concluding purchases within certain periods of time. The power of this association is sufficient to compel universal submission, and its measures are carried out with uncompromising rigour. Even those merchants who would have preferred to fulfil their engagements have, in several cases, been prevented from doing so, and the foreign importers are exposed to loss and inconvenience, while Japanese merchants commit themselves to a short-sighted policy, forced upon them by the unfortunate condition of their national paper currency. With another permanent decline in *kinsatsu* even more powerful combinations will in all likelihood arise, and cause wide-spreading injury to both Japanese and foreign interests.

We shall be glad, if called on by your excellency, to furnish more minute information on these subjects. In

the meantime we earnestly beg that immediate steps be taken to impress upon his excellency the minister of finance the adoption of some sound and wise legislation with regard to the issue and circulation of the government's irredeemable notes.

Its success would tend to solidify and strengthen the friendly ties that at present bind foreign to Japanese merchants, and would communicate to the import trade of this country an impulse and vitality which under existing circumstances it is impossible for us to expect.

I remain, Sir,

Your Excellency's obedient humble servant,

(Signed) R. HUGHES,
Chairman.

Mr. Kennedy
invites the
opinion of the
Yokohama
chamber.

A COPY of this memorial was forwarded by Mr. Kennedy, H.B.M. *chargé d'affaires*, to the Yokohama General Chamber of Commerce, with a request that the members would supplement it with any opinions pertinent to the subject treated. A reply was made on the 26th November, but its purport can only be surmised from the following communication.

British Legation, Yedo,
December 3rd, 1880.

Mr. Kennedy's
interview with
H. E. Okuma.

SIR:—With reference to your letter of the 26th ultimo I have the honour to state that I yesterday called by appointment on the minister of finance and discussed at length with his excellency the actual financial and commercial position of Japan, more especially dwelling on the disastrous result to trade of the violent fluctuations in the value of the paper currency.

Efforts made
by the treasury
to stem depre-
ciation.

Mr. Okuma, while deploring the present stagnation in foreign trade, assured me that he had used his utmost efforts to provide a remedy. His excellency asserted that during the past two years the Japanese government had destroyed paper money to the amount of twelve millions and had placed an equal sum in specie on the market, that these operations involved an exhausting

drain on the government silver resources without any corresponding advantage to trade the government have adopted another system and propose by strict economies in every department, by sale of government industries, by the recovering of sums lent to private enterprise, and by steadily adding to the specie reserve to bring the paper money to a par with silver.

On this point his excellency stated that the specie reserve which three years ago amounted to over thirty millions had now diminished to about twelve millions in specie with about thirty millions in paper yen and a further seven millions which had been advanced in various quarters; that within ten years his excellency hoped to raise the specie reserve to about fifty millions, and to keep the currency in circulation to a hundred millions, which amount was required for the wants of the country.

Specie and paper in the reserve fund.

With regard to the arguments alluded to by your chamber respecting the balance of trade, his excellency expressed the opinion contrary to the views of the chamber that the depreciation of the paper currency is entirely due to the balance of trade being against Japan, and that in recent years an average of ten million dollars has been imported in excess of exports, and he further stated that during the past six months the amounts received by foreigners for imports have, in the aggregate, exceeded the sums paid by them for exports by an average of thirty thousand dollars daily.

H. E. Okuma's opinion of the effect of foreign trade.

In conclusion I may mention that the finance minister assured me of his desire to supply the fullest information within his power on all points connected with commerce and finance, and of his anxiety to find a remedy for the present unfavourable state of trade by which the government and inhabitants of Japan are affected even more injuriously than foreigners.

Anxiety to find a remedy.

I have the honour to be, Sir,

Your obedient humble servant,

(Signed) J. G. KENNEDY.

F. D'IFFANGER, Esq.,

*Chairman of the General Chamber of
Commerce, Yokohama.*

The chamber took no steps to combat the views of H. E. Okuma.

The opinions of H. E. Okuma conveyed in Mr. Kennedy's letter were not disclosed until the meeting of the Chamber of Commerce held February 3rd, 1881. The duty of the chamber evidently was to endeavour to combat the opinions formed by H. E. the finance minister in regard to foreign trade; but so far, their action in the matter has not been disclosed. At the annual meeting of the members the correspondence was referred to; and the following quotations from speeches then made represent the opinions of the meeting.

Views of the members. Mr. D'Iffanger.

In reply to a question the chairman stated that this letter had received no further attention from the committee. They were disappointed with it, but, having expressed their views first of all, could do nothing more, and he felt it was useless troubling Mr. Kennedy further in the matter. Mr. Okuma had evidently resolved to maintain that the position of the currency was due to the effect of the foreign import trade, and it was impossible to convince a man against his will.

Mr. Macpherson.

Mr. Macpherson said it was evident that currency was not depreciated by the excess of imports, but owing to the utter want of reliance felt in it. He proposed that the minister should request Mr. Okuma to give his attention to the recently published statistics in which it was shown that exports at present exceeded imports. Now lately imports had been very small and exports large, but nevertheless satsu did not improve but on the contrary fell, which was a contradiction to the views of Mr. Okuma.

Mr. Wilkin.

Mr. Wilkin said the committee have again and again brought the subject to the notice of the ministers and have pointed out that their views are diametrically opposed to those of Mr. Okuma. Last year the depreciation put thirty per cent. on the value of all imported articles. Now it was seventy per cent. and everything was tending to produce distress. It was well known that all staples such as rice, &c. were dearer and that the depreciation of satsu affected all classes. An immense amount of gambling was done now in satsu: every dealer participated, which showed what a bad state trade was in. He thought that there were many measures which the Japanese government might take

to help their people. He referred to the losses sustained by fires, and the want of better roads. Attention to this would do more to help the country than these fictitious attempts to prove that the balance of trade affected the currency, and quite surpassed the question of a 5 or 10 per cent. tariff.

Mr. Watson said that as to the statement that no satisfactory results had occurred from the excess of exports over imports, this had only happened in the last two months, and it must be remembered that natives as a rule buy under contracts for delivery, for which they have to provide. He had no doubt that if trade continues on its present basis a marked improvement would soon be visible. Mr. Okuma appeared to recognise that the evil affected foreigners and Japanese equally, which was a hopeful sign that remedial measures would soon be taken; in fact he had reason to believe they were under weigh already.

The chairman:—Mr. Okuma attributes the depreciation to the excess of imports over exports, and it is my belief that all those connected with the ministry do their utmost to impress this idea upon their countrymen, in order to hamper trade. We ought to keep on showing that it is entirely due to the reckless issue of kinsatsu. I wish to protest against Mr. Okuma's statement going unchallenged. (Hear, Hear.)

Mr. Watson was sorry to differ, but he considered that the balance of trade had something to do with the depreciation. It was his belief that the paper currency was not too much, but that it was even scarcer than the precious metals. The drain of the latter conclusively showed that the balance of trade was against the country. We know that this depletion is due to foreign trade, though the articles imported benefited the country. As to the depreciation of the currency, government had in this a serious source of discomfort, prejudicial both to home and foreign trade. But on the other hand, what advantages had the government obtained? Before the issue of the paper currency the country was hopelessly insolvent. But now the whole debt was centralised and extinguished in a manner which must eventually prove beneficial. Pensions which had been granted ages ago continued from father to son, and might have done so until doomsday, but they were commuted, in some instances for a tithe of their amount, and in a way that

could never have been done in any other country. For that issue of paper currency government had already a good equivalent to show, and it was now in its power to foster trade.

Mr. Wilkin
again.

Mr. Wilkin remarked that the action of government in commuting pensions in the manner described seemed to him to be more a smart stroke of business than a clever financial operation; any one with similar powers could have done it. If Mr. Okuma's programme were carried out, it might possibly succeed, but it would appear that while talking of economies government was actually assisting the various newly-started trading companies. If the country were bankrupt before the issue of the paper currency, as asserted by Mr. Watson, it was certainly just as bankrupt now.

Mr. Watson a
third time.

Mr. Watson explained that in his opinion Mr. Macpherson's proposal was premature. It would be far better to wait and see, as he had suggested before, whether the improvement in exports was to be permanent: and to see how contracts were made for the future.

Mr. Macpherson
again.

Mr. Macpherson said that it must be well-known to all the importers in the chamber that just now it was impossible to get the native dealers to make contracts. In fact, many goods previously contracted for were lying unclaimed in godowns. One day traders say that they cannot take delivery as kinsatsu have fallen, and the next they ask one to wait as kinsatsu have risen and are still going up. If government were to give a distinct pledge to redeem satsu, even at a discount, it would obviate the difficulty now experienced.

Mr. Watson a
fourth time.

Mr. Watson replied that quite recently the government did this, practically, by issuing specie bonds bearing interest, and redeemable in a fixed time. Yet, although a high rate of interest was offered, few applications for these bonds were made, which bore out his previous statement that the paper currency was far from being too large for the requirements of the country. Paper money commands a high rate of interest now, while many native bankers will not advance on gold or silver.

Mr. Macpherson
a third time.

Mr. Macpherson said that that was very likely, because at the time of advancing, satsu might be 170, while when the time of redeeming came they might have fallen to 200.

THE *Japan Herald* and *Japan Gazette* then criticised the correspondence, and endeavoured to remove the stigma cast upon foreign commerce by H. E. Okuma, who, in this respect, confirmed the bad impression created by H. E. Iwakura in his address at the Nobles' Club referred to in the preceding articles.⁽²⁴⁾

Japan Herald
and *Japan*
Gazette.

CURRENCY AND THE BALANCE OF TRADE.

Japan Herald, February 5, 1881.

At the annual meeting of the Chamber of Commerce, held on Thursday last, a rather animated, but very unsatisfactory discussion took place on those well worn topics,—the currency, and the balance of trade. Whilst there seemed to be an agreement in common that business was seriously impaired by the impoverished state of the Japanese finances and the low exchangeable value of Japanese paper money, there was a wide divergence of opinion as to the causes which had brought about the untoward result complained of.

Divergence of
opinion among
the members of
the chamber of
commerce:

At the instigation of the Chamber, Mr. Kennedy, H. B. M.'s *Chargé d'Affaires*, it would seem, towards the close of last year, interviewed Mr. Okuma, the Minister of Finance, with the object of eliciting from him some information with reference to the actual financial and commercial situation of this country, but more especially to bring under his excellency's attention the "disastrous results to trade of the violent fluctuations in the value of the paper currency." The result of Mr. Kennedy's interview was communicated in writing, to the Chamber by that gentleman, and laid before the Committee, who expressed their disappointment at it, and, as stated by the Chairman, "paid it no further attention," for reasons not very difficult to divine.

their indifference to H. E. Okuma's statements.

The letter set out by stating that Mr. Okuma, whilst deploring the present stagnation of foreign trade, had assured Mr. Kennedy that "he had used his utmost efforts to provide a remedy." Not having the easy faith of the writer, we take leave to doubt the sincerity of Mr. Okuma's expressed anxiety for the welfare of the import trade, which alone suffers by the low price of *satsu* in comparison with dollars. So far as we can trace Mr.

What H. E. Okuma is responsible for.

(24) *Ante* pp. 194 *et seq.*

Okuma's hand at all, he cannot be regarded as friendly to the trade in imports. He is, of course, a party to the tariff propositions of the Government, which aim at the imposition of higher duties than are now paid; he has assented to loans being issued from the treasury to establish and bolster up industries to substitute native manufactures for foreign goods; he has made advances to national banks to enable them to do a direct trade abroad, and he countenances the native banks in issuing inconvertible notes, by which the volume of the paper currency has been very considerably augmented, and driven to a still further discount than would otherwise have been the case had the banks never been created, or had they been compelled, as they should have been, to keep a reserve of bullion to retire their notes on presentation. Further, he has sanctioned the restrictions that no foreigner shall hold Japanese internal bonds, or purchase of the natives land, or make advances against mines or their produce. These are all hindrances to business, and, bearing these circumstances in mind, we may be permitted to question the *bonâ fide* of Mr. Okuma when he affects to deplore the stagnation in foreign trade.

Paper said to be withdrawn: how much has been issued?

During the past two years Mr. Okuma stated that paper money had been destroyed to the extent of twelve million yen, and that he had placed an equal sum in specie on the market, which may be quite true, but we have a right to ask, has there been no paper money emitted during that time, and have there been no dollars purchased by paper? Without such information the statement lacks completeness, and may be misleading.

Proposed measures to restore paper to par.

The measures intended to be taken, we are told, to add to the specie reserve, and to bring the paper money up to par are,—the exercise of economy, sale of Government factories, and the recovery of sums lent to private enterprises. With regard to the first, of course if there be less expenditure abroad, the precious metals that would have to be sent out may be retained in the treasury; but with regard to the sale of manufactories and the recovery of sums lent, the Government will only be paid in its own paper, and if it intends to destroy what it may receive from these sources, by so much will the stock of paper money afloat be reduced. But it unfortunately happens that the Government cannot get rid of its "white elephants," even at a fearful sacrifice,

and much of the money it has loaned for abortive enterprises will prove to be irredeemably lost. As to the metallic reserve actually on hand, it seems, according to Mr. Okuma's statement, to have dwindled to about twelve million dollars, and even that is a larger sum than the treasury is generally credited to possess.

Mr. Okuma expressed the hope in ten years to be enabled to raise the specie reserve to fifty millions, but unfortunately he did not show how the feat was to be performed. The customs revenue and the land rents from foreigners,—the only two certain sources of revenue in real money which the Government possesses,—would be inadequate to that sum in that period. Meantime, deficient harvests or war may occur, and thus Mr. Okuma's hopeful expectations be entirely frustrated.

How can the specie reserve be increased?

According to the Minister of Finance, the balance of trade being adverse to Japan is the cause to which the depreciation of the currency is entirely due, or, in other words, the more money is sent out of the country, the lower will be the value of the remainder within it. But surely this absurd doctrine may be refuted by quoting Mr. Okuma against himself. In the first place, he states that not more than 100,000,000 yen in paper currency is required for the wants of the country, and knowing, as he does, that something like fifty per cent. over that amount has been put out, he has told us the measures the Government intend to employ,—by economy, by selling manufactories, and by calling in debts,—to get back into their own hands some of the superfluous millions which have been emitted, thereby confessing that the balance of trade has nothing to do with depreciation of the currency, but that it is redundant because in excess of the wants of business, and it is depreciated accordingly. Mr. Okuma shudders at the price of *satsu*, which have fallen in value, he says, in consequence of the import trade being in excess of that of exports; he deplores the stagnation in foreign trade, and therefore desires it to be increased; but in that event, according to his ideas, as quoted above, *satsu* will fall yet further. Such is the tissue of absurdities gravely conveyed in Mr. Kennedy's letter to the Yokohama Chamber of Commerce.

Contradictions involved in H. E. Okuma's statements.

The concluding paragraph states that Mr. Okuma is "anxious to find a remedy for the present state of trade, by which the Government and inhabitants of Japan are

Trade, according to H. E. Okuma, injurious

to Japan. Proof affected even more injuriously than foreigners." This assertion reads glibly enough, but let us examine into its truth. External trade consists of two branches,—export and import,—and let us, by way of test, speak of the transactions, fresh in our mind, of the year just closed, and it will not be a difficult task to refute the statement that the Japanese people and government have been injured by business, either in exports or imports. Silk during 1880 has been bought at prices that have given nothing worth mentioning of profit; tea has left a loss to foreign merchants calculated at something approximating to three million dollars; and for copper, curios, and silkworm egg cards their full values have been given, so that, taking the export trade as a whole, the Japanese have every reason to congratulate themselves on its success. With regard to the import trade, its advantages have almost exclusively accrued to the Japanese. Foreign importers have had to submit to prices so low as to leave no appreciable margin of profit. The Japanese have benefited in both directions; they have sold their exports at remunerative prices, and they have bought all the imports they required cheaply. The farming class, constituting the principal part of the population, has been eminently prosperous; the crops have not been deficient, and the prices of cereals have ruled high throughout the year. We emphatically contradict Mr. Okuma, and declare, for the reasons given, that the state of trade has not been unfavourable to the Japanese people. Producers have done well, and consumers have had their wants met at prices so low as to give, on an average, scarcely any profit to those importers who have supplied them.

Balance of trade
a delusion.

The "adverse balance of trade" is a bug-bear which exercises the imagination of Japanese economists largely, but trade needs no interference, it will right itself. Foreign goods can only be paid for by native products, and, when they fall short, by money, and will not be bought unless they are of more value to those who require them than that with which they part. Trade, therefore, with foreign countries, resolves itself simply into an exchange of commodities, and, as such, may be left to regulate itself. When the Japanese shall have spent all their surplus of real money,—and one of the effects of an inconvertible paper currency is to drive it away,—they will not be able to obtain more imported

goods than they can raise produce to pay for them with. Foreign trade acts as a stimulus on production, and, as such, is beneficial to the nation. We quite agree with the sensible observations made by Mr. Wilkin, that the making of better roads, and building regulations to secure houses less liable to fire, are of more consequence to Japan than tariff revision or how to redress the balance of trade. The latter will be against Japan until the aggregate value of articles of production sold shall exceed the gross value of imported articles of consumption.

Mr. Watson was in a minority of one in the expression of the singular opinions he appears to hold. With the patent fact before him of *satsu* at a heavy discount from par, he had the hardihood to affirm that the paper money in circulation was insufficient for the requirements of the country. But the speaker's zeal outran his discretion, if he thought himself holding a brief for Mr. Okuma, for the latter gentleman had given it as his opinion that 100,000,000 yen were all that was required for the wants of the community, and everyone knows that that sum has been greatly exceeded. As to this country being in a hopelessly bankrupt state before its debt had been centralized, we demur to the statement. Changing the form of a debt is a very different operation to paying it. It is true that the capitalization of incomes and pensions has been enforced, and the annual charges lessened, but 875,000,000 yen of debt remains to be discharged, and the payment of the interest and principal involved in that large amount, which may be added to, will tax the exertions of generations yet unborn. The country was not bankrupt before the revolution, and its finances are not flourishing now, but there is no need to despair of the future. All that is wanted is that the members of the government should be wise enough to do what they ought to do, and refrain from doing that which they ought not. Let them leave both domestic and foreign trade entirely alone. Commercial interests will regulate themselves, but if interfered with by meddling officials, whose theories are often unsound, the results will be sure to be found in the long run, detrimental.

Mr. Watson and
H. E. Okuma.

Government
should abstain
from meddling
with
some inter-
ference with
trade.

HIS EXCELLENCY OKUMA ON CURRENCY AND FOREIGN TRADE.

Japan Gazette, February 12, 1881.

Chamber of
Commerce appa-
rently unequal
to the task of
vindicating
commercial
rights.

General regret is felt that the debates in the chamber of commerce should, for want of proper preparation or presence of mind, invariably end to the disadvantage of the chamber, and to foreign merchants generally. This result is more noticeable, perhaps, in those cases where the chamber attempts to defend or vindicate the commercial rights conferred upon Japanese and foreigners by repeated express stipulations in existing treaties and conventions. An instance of this is afforded by the meeting of the chamber held on the 3rd instant, when untenable assertions, embodied in a letter addressed to the chairman, were met with nothing better than counter-assertions or unsupported contradiction. Two or three of the senior members of the chamber accurately estimated the position, but the general impression remains that the assertions of his excellency Okuma were beyond the power of the meeting to refute, for it must not be forgotten that the letter containing them had been received two months before the meeting called to discuss it, ample time in which to gather facts necessary for the purpose.

Necessity for
traversing H. E.
Okuma's letter.

The importance to the trading classes of this country that no fallacious declarations of ministers of rank should be permitted to pass unchallenged, requires no demonstration; and we therefore propose to deal with the observations of H. E. Okuma as statements susceptible of proof or disproof by means of evidence furnished by official documents published under the authority of the government of Japan.

H. E. Okuma
says:—

His excellency Okuma addressed the following observations to Mr. Kennedy:—

12,000,000 yen
paper with-
drawn.

1. That during the past two years the Japanese government have destroyed paper money to the amount of 12,000,000 yen, and placed an equal sum of specie on the market.

Specie reserve
reduced to
12,000,000,

2. That three years ago the reserve contained thirty millions in specie, now reduced to twelve millions; with thirty millions in paper, and seven millions out on loan.

3. That he hoped to raise the specie reserve to fifty millions and keep the currency in circulation to a hundred millions, which amount was required for the wants of the country. should be increased, and currency reduced.

4. That the depreciation of currency is entirely due to the balance of trade; and that in recent years an average of ten million dollars has been imported in excess of exports; further, that during the past six months, the amounts received by foreigners for imports have, in the aggregate, exceeded the sums paid by them for exports by an average of \$30,000 daily. Depreciation due to balance of trade.

These assertions we propose to examine in the order in which they are given.

The expenditure of twelve millions of specie on purchase of paper during the years 1879 and 1880, should, at the mean exchange of the whole period, have served to withdraw 16,820,000 yen; but it is probable only 12,000,000 in paper was withdrawn, at a cost of about 8,825,000 yen silver. The specie so disbursed by government has not been exported to defray the balance of trade. It was a payment made by the government to their creditors; the latter retaining the bulk of the money in their possession, as will be shown later on. The effect of redemption of twelve millions of currency was to depress the value of the remainder by twenty-six per cent. Thus, the average exchange of 1879 was 122; of 1880, 150. The true reasons for this continued decline will be given. Specie not disbursed to defray balance of trade but to satisfy home creditors. Redemption was followed by further depreciation.

Within three years, it is now said, 18,000,000 in specie has been withdrawn from the "reserve." That is, in December 1878, there was a sum of 30,000,000 against 12,000,000 in 1880. Here is a discrepancy not easily adjusted, and certainly calling for explanation. Several members of the chamber of commerce visited the treasury on the 30th August 1879, at the invitation of H. E. Okuma. The guests were conducted through the vaults; and figures were given to them by order of his excellency. The *Japan Mail* of September 6th, 1879, recording the visit and its object, added,—“The metallic reserve, therefore, held by the finance department on the 30th August, was, in round figures, of the value of 80,000,000 of yen.” Between that period and Discrepancies between present and past statements made by H. E. Okuma.

the date of Mr. Kennedy's letter, fifteen months only, the treasury balance was reduced by 18,000,000 yen, *plus* customs duties and taxes receivable in specie. Does this mean, either that the thirty millions in reserve in August 1879, did not exist; or that no specie was withdrawn until after that date? The question is pressing, and has an important bearing upon the rest of H. E. Okuma's observations; for it is certain that 18,000,000 of specie has not been exported during the fifteen months ending November 30th, 1879. We never credited the 30,000,000 of specie reserve; and must confess to being even more sceptical now than when assured by a gentleman who supported H. E. Okuma at the meeting of the chamber that such a sum really existed.

Contradictory evidence of the sum of paper in circulation.

We now approach that portion of H. E. Okuma's observations with regard to the sum of currency required by the wants of the country; and here we have more positive data to reply upon. The financial statement for 1880-1881, gives the total sum of paper money in circulation to be Yen 108,683,203

Total authorized note issue of the national banks	84,493,381
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. Total paper of all kinds.....	143,176,584
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From which must be deducted proportion of redemption of paper estimated for the current year at 5,045,000 yen 2,500,000

In the treasury and withheld from circulation.....	30,000,000	32,500,000
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Balance	110,676,584
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A sum of 110,000,000 is at a discount of 43 per cent. Three years before 135,000,000

If the country requires one hundred millions of currency as H. E. Okuma asserts, it is clear that an issue not exceeding *ten millions extra* is sufficient to cause a depreciation of about forty-three per cent. on the total issue! Three years ago, when the treasury held thirty

millions of specie and about nine millions paper, the condition of the currency was as follows:—

Government currency in circulation	121,154,781
National bank issues at that date, about...	23,000,000

stood at 5 per cent. discount only.

144,154,781

Less, in the treasury and withheld from circulation	9,000,000
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Balance	135,154,781
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Depreciation 30th June 1878, about five and one-half per cent.

These statistics show that three years ago 135 millions of paper was current and acceptable as representing 127,500,000 specie; now, 110,500,000 (although the country requires 90 per cent. of that sum for actual wants), will not pass as the representative of more than 63,500,000 of specie. What is the cause of this? H. E. Okuma says, the depreciation is entirely due to foreign trade. Mr. Macpherson says, depreciation is not due to foreign trade, but to the utter want of reliance in the currency. Causes of this.

The accuracy of the figures here given is vouched for by the official character of the documents from which they are taken, and the conclusions to be drawn from them entirely support Mr. Macpherson and oppose H. E. Okuma. The latter gentleman did not volunteer to Mr. Kennedy any information respecting fresh issues of paper; and we are justified in asking whether any fresh issues have been made. The reasons for the question are sufficiently strong. First, the so-called reserve fund is not a reserve fund in any other sense than as the balance of a current account. To speak of the reserve fund as a surplus, is an error as extraordinary as the persistency with which his excellency Okuma maintains that he has a surplus of forty-six millions, when his own published figures and statements distinctly prove a deficit of twenty-two millions. These erroneous declarations regarding the reserve fund and surplus, combined with the practical contradiction afforded by a large percentage of redemption causing a greater disproportionate decline in value of the residue; and with the fact that, consequent upon the serious depreciation, H. E. Okuma is opposed by his own figures.

it has been impossible for the government to keep the expenditure of the last three years within the income: and further, that the finance minister has included, and therefore may again include, *as revenue*, fresh issues of paper money, are grounds more than sufficient for respectfully, but firmly, declining to accept the manifest absurdity involved in the belief that the gross sum of paper, inclusive of the bank issues, does not exceed one hundred and ten millions of yen.

Knowledge is growing that money is but a commodity having a marketable value.

Loss of confidence in the issue.

The truth of the matter is, the Japanese people are beginning to find out that money is a commodity, having a marketable value. A sum of inconvertible currency will float at par so long as the requirements of trade for a medium of exchange are not exceeded; by what sum we can only surmise; but there are strong reasons for assuming the amount in circulation to be two hundred instead of one hundred millions. For the surplus, there is no outlet. Men holding capital in paper and anxious to use it, are willing to give a discount to get rid of it; and, as we have said before, there is no limit to that discount when once a surplus of irredeemable currency is manifest. Mr. Macpherson ascribes depreciation to loss of confidence in the issue. He is supported by the facts, to be hereafter shown, that foreign trade does not in any material degree affect the currency: that a koku of rice is exchangeable now for the same quantities of different produce, allowing for fluctuations of supply and demand, as it was three years ago, although it is nominally 100 per cent. dearer in currency than it was then; and that the people in the interior, far removed from the action of foreign trade, are carefully hiding away every coin they can obtain, in the belief that unless they do so they will be irretrievably ruined by the collapse of the currency, an event they regard as a certainty of the near future. To such an extent is this hoarding of coin carried, that even coppers are put away, the innocent people not knowing or ignoring the truth, that the intrinsic value of copper tokens is about 60 per cent. less than their nominal value. This suspicion of currency increases day by day; it had its origin in over-issue; and thinking men know that so long as the government policy continues unchanged, redemption is impossible: therefore they will have no more of it. These reasons justify the assertions that the people hold the specie said to have been recently disbursed by the

treasury; and why a decline of 26 per cent. was established in one year—the year while redemption was going on—referred to in the earlier part of this article.

We now arrive at H. E. Okuma's declaration embodied in paragraph 4. In dealing with it, we must hazard the repetition of facts more or less within every one's knowledge. The official returns of foreign commerce, published by the bureau of customs for the four years ending June 30th, 1880, show

Imports	Yen 123,156,327
Exports	106,863,482

Excess of imports	\$16,292,855
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For the half year to 31st December.

Imports	18,153,444
Exports	16,898,947

Excess of imports	1,254,497
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Balance of trade	17,547,352
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Of this so-called balance of trade, goods of the value of ten to fifteen millions of dollars are lying unsold in the hands of foreign importers.

Treasure returns for same period:—

Exports	43,554,654
Imports	17,750,570

Excess of export	25,804,084
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Exports	4,729,306
Imports	281,927

Excess of export	4,447,379
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Net balance exported	30,251,463
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Average annual excess of goods import ...	Yen 3,677,182
Average annual excess of specie export ...	6,722,548

The excess of importation is explained reasonably by the expenses incurred by foreigners for their residence, wages to native employés, food, building, customs duties, **Excess of importation explained.**

&c., which are virtually paid for in goods. Thus, in consideration of expenses incurred, and for the purchase of Japanese produce of the value of yen 123,760,000, foreigners will pay, when all the goods in their hands are sold and delivered, in goods of the value of yen 141,300,000. Nothing whatever has been paid to foreigners in *money* as a balance due them for goods supplied during the period mentioned; and this statement will be confirmed by any Japanese merchant of probity and intelligence, who will freely declare that foreign commerce has been the means of enriching a large section of the people; that it is in every sense beneficial to this nation which has been the gainer; and that the stagnation of the time does not arise from any desire to limit operations, but from the circumstance that trading capital has been absorbed by the government who have purchased it with paper currency they cannot now redeem, and sent the useful specie abroad to defray instalments of loans and others expenses which bullion alone can liquidate.

What has become of the specie?

The export of thirty and a quarter millions of specie is to be accounted for in this manner:—

Amortization of foreign loans	
for the five years from	
1876-77 to 1880-81	yen 9,075,683
Various other expenditure	
on civil service ⁽²⁵⁾ yen	
3,500,000 annually.....	17,500,000
Sir E. J. Reed's ironclads ...	3,000,000

Total government expenditure abroad in
specie, July 1st, 1876 to Dec. 31st,
1880yen 29,575,682

These figures are the strongest refutation of the position;

Until these figures can be explained or shown to be incorrect, we aver that H. E. Okuma is labouring under a false impression. We need only refer to the last passage of paragraph 4, to warrant this belief. \$30,000 daily for six months, or 150 days, means, \$4,500,000. What do the customs returns show? An excess of imports of \$1,250,000 only. The chamber

(25) *Vide Nichi Nichi Shinbun*, Nov. 6th, 1880.

of commerce' statistics of trade show the estimated value of deliveries for six months ending December 31, 1880, to be \$8,265,114; estimated value of exports \$9,751,802. The unsold goods in the hands of importers we have no means of accurately estimating; but it is probable the value is not far short of \$12,000,000 to \$15,000,000.

We submit these facts and figures to his excellency Okuma, confident they are not unworthy of his consideration. He has not deemed it necessary to support his *dicta* respecting foreign commerce, and its effect upon the currency, with any data; and when so strong a case is made out for the defence we may justly declare, in opposition to his excellency Okuma and his excellency Iwakura, that there is no balance of foreign trade payable in specie; and that the depreciation of currency is due to causes for which foreign trade is in no sense responsible.

In conclusion, it is right to add that when the government could buy specie for paper on the markets of the open ports, they provided for their requirements abroad by that means: or when they could ship rice to Europe and realise it there, devoting the proceeds, we presume, to the liquidation of government liabilities, (26) they did so, and held to the specie in the treasury as long as possible. This business, and similar undertakings in silk and tea in direct violation of the stipulations in the treaties and the tariff convention of 1866, came to an end as was anticipated. Since then, the government have been compelled to meet their liabilities abroad as best they may; and

and deserve
earnest con-
sideration.

Why foreign
trade has been
assailed.

(26) "The Japanese government have, from time to time' certain payments to make abroad on account, for instance, of the redemption of their foreign debt, for men-of-war, arms, &c. Being unwilling to draw on their reserve of coin or bullion for these payments, they are in the habit of purchasing rice in the country and exporting it to places, where they think it may find a good market." H. E. Okuma to Mr. Mounsey. *Vide Japan Gazette* November 25th, 1878. In 1879 and 1880 the flood of currency had brought about depreciation: rice rose to figures which precluded even government exportation; and other means had to be resorted to to provide specie for use abroad. Shipments of tea and silk on government account were next tried; only with the result of still further depreciating currency, alarming the people, and putting an end to the purchase by government of any further produce for paper. The government then had no alternative but to ship specie taken from the treasury. How long can it last?

seeing the treasury depleted, nothing coming in except their own dishonoured promissory notes; the people suspicious, alarmed, and resolved to buy no more government paper, it is not unnatural that a minister upon whom a vast responsibility rests should seek to cast the burden upon other shoulders: foreign trade has, therefore, been made the scapegoat, and loaded with charges the groundlessness of which is now demonstrated.

WANTED, LESS PAPER, BUT MORE MONEY.

Japan Herald, February 19, 1881.

Government expedients to arrest depreciation.

1. Internal loan: its effect.

2. Specie redemption.

3. Interest bearing bonds.

To arrest the downward tendency of the exchangeable value of *kinsatsu*, the Government has adopted, in succession, four expedients; 1st, inviting subscriptions, in paper for an internal loan for public works; 2nd, buying *kinsatsu* with specie from the treasury reserve; 3rd, offering for sale interest bearing bonds, the interest and principal of which are payable in specie at fixed dates; 4th, by the practice of economy in the departments, to spend less than is received. With regard to the first effort, if public works have been prosecuted with the proceeds of the loan, its effect will to a large extent have been nullified by the re-issue of the paper to pay for works as executed. After the disbursal of twelve millions of gold and silver specie to buy in *satsu*, that plan has been abandoned, as the treasury could no longer stand the drain upon it; the money passing away to redress the foreign exchanges almost as it was paid out, and in the estimation of Japanese financiers appeared to do little good, as the decline in value of *satsu* in circulation still went on, in spite of what was done to bring the paper back to par. With respect to the subscriptions invited for interest bearing bonds, so far as we know, no authentic official statement has yet been made; but it certainly would be of interest to learn to what extent the tempting offer made by the Government has been availed of, and what becomes of the paper money paid in for the purchase of these obligations. Has it been cancelled? does it accumulate in the treasury to swell the reserve? or is it paid out again to meet departmental expenses? These are questions that are asked, and should be answered. If the Government places no limit on the

issue of these bonds, and is prepared to issue them to the extent of the *kinsatsu* in circulation then the paper money can no longer be regarded as absolutely inconvertible, because in a roundabout way it is made convertible, for bonds bought with it are to be paid in specie at due date. In this way *kinsatsu* enjoy a species of deferred convertibility, whereas the paper money bears upon its face no obligation on the part of the government ever to redeem a single cent of its issues. The fourth plan,—that of economy, or the effort to spend less, has been too lately adopted to yield for the present any practical result; but it is questionable whether much appreciation of the value of the paper already put into circulation will ensue, for it is rare that any government, taking one year with another, can much control the scale of expenditure that has gradually come into operation, and the parsimony enforced in one or two departments is not unfrequently nullified by the extravagance of others, and there are, moreover, unforeseen outlays that generally absorb, it may be, the cheese-parings savings of years. No one can know to what extent the plans that have been tried, and which are still in operation, have succeeded in arresting the downward tendency of paper money; but if two of them had not been had resort to,—the purchase of *satsu* with specie, and the issue of bonds,—the discount on paper money, great as it is, would have been greater,—because its excess beyond tradal requirements would have been more than it presumably is now. To that cause alone do we attribute its depreciation. In our opinion, the balance of trade, whichever way it actually is, has nothing to do with it; nor do we imagine that the population of Japan has any want of faith in its government. In the daily transactions of life, *satsu* pass from hand to hand, and so long as every person takes them freely and without question in payment for commodities, for property, and for wages, it is a matter of utter indifference to their temporary possessors whether the Government at some future period shall have, or not, both the will and the ability to redeem them. With bonds, with bills of exchange, or with promissory notes, the case is quite otherwise; for the possessors of these obligations look forward to a definite day, when the money then falling due shall be paid. But with *kinsatsu* as with Consols, persons in possession of them do not

4. Economy.

How far these measures have been tried is unknown. If second and third had not been had recourse to, discount on paper would have been greater.

look forward to being paid by the Government; but regard how far it will answer their purpose to buy them, and whether they are likely to suffer by any possible decline in their exchangeable value. Believing, therefore, that paper money is at a heavy discount in consequence of its excess, and for no other reason, we have no confidence in any plan that has been propounded or can be, that does not take cognizance of that fact, and which is not directed to secure the absolute retirement of as much paper money as will suffice to bring the balance in circulation to par. The several conjectures that have been hazarded, and the theories propounded by way of solution, are just so many distractions obscuring the real point at issue. Money, or that which passes as such,—because it performs its functions,—is governed by the same laws of supply and demand as any other article of which the majority of mankind desire the possession; when the supply is in excess of what is required, its exchangeable value declines; when the demand exceeds the supply, the price rises. Make *kinsatsu* scarcer, and they will become dearer. To us this seems so trite,—so obvious,—that it appears to be a mere waste of time and of ink and paper to discuss the question otherwise. Unless the government had tried the experiment it could not know how much paper money could be kept afloat at par, and the temptation to go on issuing it was greater than either this or any other Government—free to act in this regard—could resist or has ever resisted. With States, as with individuals, spending is easy and pleasant. What luxuries would be foregone, what expenditure would be postponed or not increased, if the issue of pieces of printed paper, costing intrinsically nothing, and which could be made without limit, would procure anything or everything that might suggest itself, or could be suggested. But when paper money is found to purchase less and less of what it formerly commanded, then such a state of facts should operate as a warning that the proper limits have been exceeded, and that an excess has been emitted.

It is only fair to the Government to say that it has recognised the fact of there being an over issue of paper, as evidenced by the steps it has taken to reduce the amount in circulation; but it has to contend with a difficulty of its own creation, which will task its

Excess of paper
the reason of its
depreciation.

The true
remedy.

Impossible to
tell how much
paper will float
at par without
experiment.

Government
recognition of
over-issue.

financial abilities and resources to the utmost to get rid of. Abundant rice harvests, to enable shipments to be made abroad for coin, or a foreign loan, would be of material assistance, to enable it to retire some of its superfluous paper; but one is dependent on the seasons, and against the other, there is a considerable amount of opposition manifested both within and without official circles; nevertheless, we are confident that sooner or later the latter plan will have to be resorted to, if for no other reason than the repayment of the interest and principal of the loans already contracted; in addition to this, there are also internal bonds maturing, which will have to be paid in specie, so that it seems clear that more actual money must be procured to enable the Government to pay its way.

Abundant
harvests, or
foreign loans.

There is an expectation that the share of the Shimonoseki indemnity, wrongfully taken from England by America, will be improperly returned to Japan: the original sum, notwithstanding some deductions to meet American claims, is supposed now to amount to nearly two million dollars; but the reception of this sum will bring no financial ease to the treasury, as the projected fortifications of the coast, and purchase of heavy ordnance, are calculated to cost far more than the sum expected to be received from the U. S. Government.

Projected return
of the Shimonoseki
indemnity
by the United
States.

It would be satisfactory if the Japanese Government applied itself sedulously, as fast as its means might enable it, to the retirement of its superfluous paper, instead of muddling away its scanty supply of money, in running non-paying manufactories, making advances to impecunious banks, and interfering with trade, by giving monetary assistance to "direct shipment" enthusiasts. It has quite enough to do to look after the preservation of its credit, and to save the country from the miseries and losses that a depreciated and fluctuating currency invariably entails. But acting with but little wisdom, it fritters away its resources, by dabbling in all sorts of visionary and unsound schemes, instead of confining itself to the legitimate functions of the rulers of a state. Meantime the currency sinks lower and lower, and the prices of commodities and of labour, as a matter of course, keep constantly advancing, until a point may be reached at which production may be checked; for persons with fixed incomes will not be enabled to buy all they require for con-

The government
wastes time in
visionary and un-
sound schemes,

sumption, and the money they are in receipt of will no longer command what it formerly did; dissatisfaction and distress amongst the consuming classes must result. To put the paper currency on a better basis, and to bring it to par, are worthy the best efforts the Government can make.

and should
adopt serious
measures

We have no faith in those chimerical plans that have been propounded, which make so pretty a figure on paper, of paying off the debts of the nation in less than the lifetime of a single generation, for there is always something intervening to mar the realization of the plans of sanguine projectors. The future may be left to provide for itself; it is the present difficulties that demand earnest attention, with sagacious and vigorous action, and we trust that in the interest of the people of Japan, and of foreigners who have business relations with them, that the Government will seriously set itself to work, to wisely amend what is amiss in the finances of the Empire.

COMMERCE AND CURRENCY.

Japan Gazette, February 26, 1881.

A CHAPTER OF HISTORY.

I.

Balance of trade
expenses.

An important element in the balance of trade theory as understood by certain ministers of the Mikado's government, is that the large daily expenses of foreigners, which are admitted by those ministers to be large, are met with money obtained from the people of this country.

If this assertion is based upon truth, the presence of one foreigner in Japan is a disaster to be multiplied by the number of residents to obtain the measure of injury inflicted upon the people.

The drain of
bullion and
depletion of the
treasury ascribed
by H. E. Okuma
to foreign com-
merce.

His excellency Okuma deplores the steady export of precious metals; and he ascribes the depletion of the treasury and the purses of private individuals to an adverse foreign commerce. Advantage may be taken of this newly-formed argument, to ask where the bullion of which the nation is said to be drained originally came from; into whose possession a large portion of it passed; and how that portion has been disposed of.

When Japan was first opened to foreign commerce, Foreign merchants first brought money with them any commodities with which to open trade; but brought, instead of goods, ship-loads of silver dollars. In support of this assertion may be quoted, for what they are worth, the trade returns from 1860 to 1868, which show a balance in favour of Japan of about \$30,000,000, liable to increase by such value as may be put on the land and buildings acquired by foreigners. The intention now is to show that, whatever the drain of specie may be from Japan; and whether it is or is not the result of external commerce, the actual money is the profitable fruit of that commerce.

The original commercial treaties provided that Japanese coin only should be used for trading purposes; and the government undertook to provide Japanese coin in exchange for foreign coin, giving weight for weight without charge for mintage. The equivalent of a Mexican dollar was then ascertained to be 3.11 silver *bu*.

This arrangement was to continue in force for one year, when it was to be reconsidered or extended if either of the contracting parties required an alteration. How this plan worked is explained in a letter addressed by a then resident of Yokohama to an eminent firm of financiers in London. The letter was written in September 1867, and quotations from it will derive much force from the circumstance that the events dealt with were then fresh in the writer's mind. He says:—

From the very commencement this system worked badly. but the system was bad as the demand in exchange for dollars could not be met. Foreign merchants were unable to enter the markets for the purchase of Japanese produce, until they had obtained *bu* from the custom house in exchange for their dollars, and the Japanese government was totally unprovided with the means of coining *bu* in sufficient quantities to meet the constant and clamorous demands of foreign merchants whose stocks of dollars were large.

Upon this, the Japanese government pretended to disbelieve that foreign merchants could be *bonâ fide* holders of dollars to the extent of their applications, and gave orders that each applicant should receive only a certain proportion of the amount he applied for making an exception in favour of persons holding any government office or employment. The consequence was that one of the principal China houses, represented by a person then holding the position of consul for France and Portugal, was enabled to trade to the full extent of its funds; while others were restricted to operations

representing only a small proportion of the capital in their hands. This naturally gave rise to a great deal of ill-feeling and discontent, and when, after bribing the custom house interpreters, it was ascertained that the amount of each application was divided by a certain figure the applicants multiplied their demands by that figure; and when it was afterwards learnt that the divisor was increased the multiple was likewise increased, until at length the amounts applied for assumed those absurd proportions that created so much disturbance in 1860, and brought so much scandal on the Yokohama community.

Foreign houses
imported specie
for trade pur-
poses.

Prior to foreign
intercourse
money was al-
most unknown.

The benefits of
commerce all on
the side of the
Japanese.

This quotation strongly supports the assumption that, at the outset of trade, large sums of money were imported by foreigners. Old residents will remember and affirm the fact that it was a common thing for a foreign house of standing to hold at least \$200,000 in imported specie for exchange for trade purposes; and this sum was, for some time at all events, kept up to that limit. Also, that the Shogun's government were unable, from the amount of Japanese coined money available, to exchange coin for coin in proportion to the requirements of foreign merchants then in Japan. Prior to the opening of foreign intercourse, *money* was almost unknown. The revenues of the daimiates were computed in koku of rice; and beyond the small coins current for petty exchanges there was nothing better to meet sudden demands for an equivalent of exchange than the promissory notes of the daimio, which were afterwards superseded by government paper.

There are few who will venture to dispute the hypothesis that the commerce of Japan has, in the aggregate, been disastrous to the foreigners engaged in it. Some few of the earlier settlers made money; but to whom can we point since 1866 whose capital has not been diminished instead of enlarged by the result of his business, with the notable exception of those favoured with government contracts? The experience of foreigners is, and calm, impartial reflection confirms the decision, that the benefits arising from commerce have been all on the side of the Japanese people, foreign merchants who originated and conducted it being, so far as their worldly wealth is concerned, poorer now than at the commencement of those operations which certain eminent ministers are pleased to regard as lucrative to the foreigner and disastrous to this nation.

If the large expenses of foreigners are defrayed out of money drawn from Japan, the argument applies to the expenditure of ministers, consuls, ships of war, merchant vessels and visitors, and reduces the position to an absurdity. The bulk of this expenditure is in paper, but the currency has to be first purchased with specie; and, as a fact, the banks have to import specie for these purposes of their constituents. There is a large surplus of export of specie; but the returns show the far greater proportion of export to be of coins made at the mint for government purposes. The imported coin is chiefly Mexican dollars for the requirements of merchants. We therefore reach a conclusion that whatever wealth the nation possesses has been derived from foreign commerce; that in the earlier years of our intercourse the balance due to Japan was paid in actual money; and that now the people prefer to receive the balance chiefly in imports of which money is but the symbol, the remainder being defrayed in coin which is put away to form private hoards.

The greater proportion of coin is exported for government purposes abroad.

Into whose possession, then, has the bulk of the money brought in by foreign trade passed? When a Japanese merchant has disposed of his property to the foreigner for specie he purchases paper wherewith to replace the commodities in which he deals. Currency is a prerogative of the government; for every yen note issued value has been received, and considerable quantities of new government paper have been sold on the markets, the specie finding its way to the treasury and thence to the banks for bills on London for government requirements abroad. So long as currency maintained its value the people were satisfied and the government happy. But there came a time when notes exceeded the requirements of trade; and there being no outlet for them it was obvious no more purchases of fresh currency would be made, unless upon speculation, which means a consideration to the purchaser in the way of a discount from the seller. Is it an extravagant estimate to assess the specie expenditure of the government abroad since 1868 at \$100,000,000? We think not. The new government of 1868 resolved to preserve the substantial fruits of foreign intercourse as provision against the very contingencies that intercourse might bring about. The age of "civilization" had not then begun. With the restoration, however, came the demand

Where has the specie gone to?

Great government outlay

Paper money issued which cannot now be redeemed.

Cause of depreciation of currency.

for foreign supplies on government account; and a great outlay was incurred for an army and navy and other necessities of a new empire. By the time when the control of the treasury passed into the hands of H. E. Okuma a vast debt had accumulated. To carry on the work his excellency avowedly issued 73,325,444 yen in paper, the most of which has been exchanged for specie derived from commerce. That specie has been exported, and the issuers of the notes are unable to redeem their liability. If it were not for government export of specie on unproductive works, the money would have remained in the country and formed the steady medium of exchange in place of the inconvertible and distrusted currency which has taken its place. The benefits of foreign trade are still felt, lessened, no doubt, by illegitimate official interference; but the profits derived from it are no longer exchangeable for government currency: and it follows, that whatever the balance of the people's trade may be—if fifty millions of dollars were received to-morrow for exports—government currency would not be affected beyond what an increased demand necessitated by trade wants for more circulating medium might cause in the current exchange. The fact would remain unchanged; the profits of trade belong to the people, and do not pass from the people to the debtors of the people to enable those debtors to cancel their liability by returning to their creditors the coin which belonged to them in the first instance.

The corollary is, that if at the commencement of foreign commerce Japan had no bullion worth speaking of, evidenced by the certainty that the quantity available for exchange by the executive government of the Shogun was wholly unequal to the wants of the then limited trade, whatever wealth in bullion the nation has since possessed has been obtained from foreigners, as the result of their trade with the Japanese people. The people acquired the bullion in the first instance, and the government borrowed it from them on promissory notes that cannot be taken up. And, finally, the Mitsu Bishi steamers; the navy with its ironclads, guns, and equipments; the army; railways; telegraphs; public works; the expenses of legations and consulates; and the innumerable sources of expenditure that must be defrayed in money, account, at once for the export of specie and

the depreciation of the promissory notes representing that specie.

Japan Gazette, March 5, 1881.

II.

Those who remember the condition of things in Japan on the opening of the country to foreign trade in 1859, and during the next succeeding years, will hardly dispute the accuracy of the preceding statement that the wealth now existing here, whatever it may be, is, in some part at least, the fruit of that commerce.

For at that epoch there was very little accumulated wealth in this country: a few daimio and others had some hoards of gold, and the government had a considerable stock of the rice in which their revenues were paid. But the people at large were exceedingly poor, had almost no surplus of any kind, and lived from hand to mouth, from day to day, without even the hope or ambition of wealth. It is true that they seemed contented and cheerful in their poverty, but this was evidently the effect of their submissive disposition and want of knowledge, and did not imply either prosperity or positive happiness.

Among other things in which they were singularly poor was money. They had indeed a currency; but it consisted then, as now, chiefly of paper, which was issued by the general government, by the daimio, and even by private individuals; was intrinsically worth nothing, and has never been redeemed. So much of this paper currency as has since been acknowledged is now merged in the national debt, but practically, none of it has been paid.

Along with this paper there was also a certain quantity of gold, silver, bronze and other coins, known as kobang, nibu, ichibu, tempo, and zen. Not a very important quantity in all, but enough, apparently, to maintain such an appearance of real money in circulation as lent a semblance of value to the paper currency.

Of these coins, the gold kobang were held mostly by a few persons of the upper classes, the richer daimio, and here and there, a saving farmer or banker. The people generally knew the kobang only by name. Of the nibu there may have been more, but there could have been no large amount, as this coin also was too

valuable for general use. The best coin of the common people was the silver ichibu, which, with the universal tempo (made of bronze) and the little zeni (made sometimes of base copper, but often of iron), constituted the ordinary money of Japan.

Gold and silver lavished in ornamental purposes.

What the total sum of this metallic money was in 1859 is not known to any foreigner, and never was accurately known to anybody. But it is evident that it could not have been a large sum, for Japan had extracted very little gold and silver from the earth; what had been extracted had been lavishly used for ornamental purposes, and no supplies had come in from abroad for centuries. It was consequently impossible that there should have existed any great stock of the precious metals in the form of coin, and the general use and need of the motley paper money clearly proves that there was no such stock.

Oppressive taxation.

But, not content with having inflicted an inconvertible paper currency on the nation, nor with a system of taxation in kind which often took from the farmer over half of his product, and so weighed upon the people that men had no motive to be diligent, and were possibly afraid to seem prosperous, the Tycoon's government had also, at some time before foreigners came here, reduced the silver ichibu by two-thirds of its original value, making of it but a token coin instead of real money. At that previous time this coin, as its name implies, had been intrinsically worth a quarter of a rio. But, by monopolizing all the silver in the country, government were enabled to issue that silver in the form of ichibu at what price they pleased; and they were pleased to issue it at just *three times* its natural or cost price. The proof that such was the practice is found in the circumstance, well-known to most foreigners who were here in 1859 and 1860, that wrought silver in other shapes than coin was purchaseable for half, and sometimes less than half, its weight in ichibu; the explanation of this curious fact being, that the government sold to certain silver-smiths of the guild such silver as was needed in their industry at the original cost price.

Reduction of the value of coin, and monopoly of gold and silver by government.

Unjust valuation of coins.

It was a government of nobles, who acted as nobles have always acted in every country where they held sway. The common people were their slaves and victims, and the earnings of industry their lawful prey. The gold coins which the ruling classes held, and the

ornaments which they liked to order from the humble artisan, were, for their benefit, left at their former value; while the money issued to the lower classes was ruthlessly reduced to one-third of its old value. The kobang remained a rio, the silver chain or pipe could be had at the old price, but the ichibu was trebled in price; and as it could be got only from the government, and was a necessity, the people had to endure this robbery.

They were found patiently enduring it when foreigners came here in 1859; and if foreigners had not then come, bringing new and stirring ideas with them, that patient endurance might have lasted to this day. For nowhere in this world could there have been found a ruling class so powerful, so oppressive, and so utterly without compunction; nowhere a people so abject, so thoroughly under control, so docile in their fetters, as here in lovely Japan only twenty years ago.

Fortunately for the foreigner, he came to Japan exempted from the tyrannous system whose effects he saw around him. Fortunately, too, both for him and for the poor people of Japan, his money was also exempted from the plundering tax to which native silver money was subjected. By what will come to be regarded as a most happy blunder, but was nothing but a blunder, (on both sides), the government agreed that dollars should be received at full value, "weight for weight." Had the Japanese nobles been wise they would never have consented to this dangerous concession. They probably did so chiefly from a feeling of magnanimous contempt for the intruding strangers, little dreaming of the consequences of their act. Yet these consequences have been marvellous; for, in this exemption of foreign dollars from the exaction laid on other silver, lay the fecund germ of the change and disturbance which afterwards wrecked the feudal system, and opened to these down-trodden millions a road to power, self-assertion, and wealth, from which they are not likely ever to retreat.

Status of the people improved by foreigners.

Foreigners exempted from the taxation to which native money was subjected.

The consequences.

Foreign commerce and the independent bearing of those who reintroduced it here must have done something eventually to rouse the Japanese from their lethargy and ignorance. But these influences might have proved feeble and slow, but for work of that other force—not suspected at the time, and perhaps not generally recognized even now—which grew out of the

Stimulative effect on the Japanese.

admission of the foreigners' money on an equality with that of the nobles themselves, and at three times greater value than the money of the common people.

Foreign commerce the moving cause of change in form of government.

This influence, working unseen, and beyond the control of the ruling class, fermenting gradually among the masses, making itself felt through the money which every man handled day by day, has probably played a quicker part in producing the changes which have since occurred than all the dynastic jealousies, the hereditary feuds, or the diplomatic manœuvres, which are commonly credited with having lifted Japan out of the foul mire of feudalism and set the nation on a solid road of progress with some vista of responsible government in the distance. And when the history of these changing times shall come to be fairly written, it will be to this slight cause, originating in a blunder, yet working with the silent power of a law of Nature, that will be ascribed much of whatever personal liberty and political weight this people shall finally wrest from those who for centuries trampled upon their natural rights and plundered them without mercy.

Candour of these observations probably distasteful.

We fear that our observations will not please those who, regretting the changes which have here occurred, regard foreigners and foreign commerce with dislike, and as mischievous intruders into the "Land of the gods." But in the belief that truth must prevail at last, and with the intention of stating nothing but what we believe to be true, we shall not spare the prejudices, the fallacies, or the impostures, which have heretofore too often served as arguments in this question. not only among reactionary Japanese, but with some foreigners also.

Importance of a clear understanding.

Meaning so to continue our remarks we earnestly invite *fair* criticism on them, whether from our contemporaries, native and foreign, or from others; and we promise respectful consideration of whatever may be properly advanced against our views. For our sole purpose is to aid in dispelling the misunderstandings and sophistries now tending to bewilder and belittle a question which seems to us to deserve the clearest, truest, and most radical treatment that any friend of Japan can afford to give it.

Japan Gazette, March 12, 1881.

III.

The preceding article referred to the working of the incautious concession by virtue of which foreign silver, on its first appearance in Japan in 1859, was allowed a value three times greater than that paid by the government for the Japanese silver which they monopolized. Superior value of foreign over native silver.

The concession in question is contained in article V. of the American treaty signed at Yedo, July 29th, 1858, and in similar articles in subsequent treaties with other powers, and provides that for a year after the opening of each port the government would furnish Japanese coin in exchange for foreign coin, equal weights being given and without charge for recoinage, and that coins of all descriptions, Japanese copper coins excepted, might be exported. Concession in the American treaty.

The immediate effect of this rule was to develop an extraordinary demand on the part of foreigners for Japanese gold coins. The most inferior gold kobang then existing was worth intrinsically over four dollars in silver. By the treaty, foreign silver had to be exchanged by the government, weight for weight in Japanese coin, and therefore commanded 3.11 bu per dollar. Now, four of these bu were considered equivalent to a rio or kobang. Hence for about \$1.30, converted into bu, one might buy a gold piece intrinsically worth over \$4.00. Foreigners were not long in discovering this Pactolian spring, and proceeded to avail of it to the utmost; kobangs being, however, rather scarce, and their sale to foreigners (in despite of the treaty) sternly forbidden by the officials, few or none were actually got at this low price. But at about 8 bu, which was double their currency value, a large number were obtained, many Japanese being found willing to risk their heads for so unusual a profit. Its effect.

The largest and most lucrative part of the business done here by foreigners during that first year was, therefore, in the purchase of gold coin; and probably more than a million dollars worth of these coins was exported during that year. The government made great efforts to check the traffic, but, of course, had little success while profits on both sides were so tempting; and dollars continued to be poured into Japan, and gold to be taken away until, finally, about the beginning of Lucrative export of gold.

1860, the government (at the instance, it is believed, of the American minister, who saw with some dismay the results of the concession he had obtained,) fixed the sum of 12 bu as the equivalent at which they would buy kobangs, when, as a matter of course, the objectionable commerce soon ceased.

Nonsense written about this business.

About this business a flood of nonsense has been uttered in print and otherwise by people who, careless about the facts, and mainly intent on reporting marvels about Japan, could find no other explanation of it than the shallow notion that gold was vastly cheaper in this wonderful country than anywhere else in the world.

The facts connected with it.

The simple fact was that gold had in Japan about the same value relatively to silver as it had elsewhere, namely 16 to 1; but, owing to the over-valuation of native silver *money* (described in a former article) and to the imprudent extension of that over-valuation to foreign silver, the Mexican dollar had, most unintentionally, been endowed with a triple purchasing power. Hence the foreigner, exchanging his dollars weight for weight into bu at the government counter, had all the advantage over the native seller of silver that the government themselves possessed; and with this advantage (amounting to 300 per cent.) could buy gold or anything else at what naturally seemed to him wonderfully cheap rates, even when he paid the Japanese sellers double the price usual among themselves.

Foreigners of the early days much maligned by ignorant writers:

The foreigners who were here in 1859 have been much maligned by the writers already alluded to for having in these transactions taken a perfectly legitimate advantage of the exceptional conditions in which article V of the American treaty placed them. For not only had the Japanese government agreed by that article to furnish bu for dollars, weight for weight, without limit, but they had agreed also to allow the free export of Japanese coin, and foreigners who sought to profit by this were strictly within their right, much as they are condemned by Sir E. J. Reed, and other prejudiced or thoughtless observers, for using that right. In fact, the only real infraction of this section of the treaties then practised was on the part of the Japanese government, who endeavoured, by severely punishing every Japanese detected in selling coins to foreigners, to prevent a traffic and an export which they had clearly agreed to permit.

That the government were taken by surprise in being called on to exchange immense sums of dollars, when they had expected to have to deal with small amounts only, is no doubt true enough : and it is also true that foreigners showed great greed and little delicacy in their demands for exchange and in the way in which they pressed those demands on the unlucky Japanese officials. But all that can fairly be charged against them in this regard is that, in natural eagerness to make the most of a legal advantage, they scrambled for him in very undignified, and often very objectionable, ways. But in so far as the exchange itself, and the purchase and shipment of the gold were concerned, they did nothing that was not fully warranted by the treaties under which they had been induced to come here, to bring ship-loads of silver, and to risk their lives and their property in a country where both were, at that period, in very considerable danger.

but dispassionate views of the circumstances justify their action.

It is important to note, however, that at the opening of foreign trade in Japan most other Japanese productions were quite as cheap (to the foreigner) as gold. Gold was preferred for export because its value was better known and could be more quickly realised ; but it soon appeared that silk, tea, oil, etc., were quite as profitable to deal in ; and the reason these articles were cheap was the same reason that made gold seem cheap, namely, that they were also purchaseable with over-valued silver money which the foreigner alone could buy at the equivalent of its prime cost from the government who issued it. Under such conditions, it is not surprising that all Japanese articles seemed marvellously cheap and gave large profits to the exporter.

Relative cheapness of other commodities beside gold.

A proper remedy for this factitious state of things would have been for the government to call in their over-valued silver currency, and to issue full weight coin for the light coin they had formerly forced on the people. Had that been done foreigners would have found themselves at once on an equality with natives ; prices would have been quickly adjusted so that gold and all other things would have recovered their normal value in foreign silver, and at least one stigma which has been persistently attached to the opening of foreign trade in Japan would have been denied to those who have been so fond of vilifying the merchants engaged in that trade.

The remedy was in the hands of government,

but it either did not occur to, or was not availed of by them; but they adopted a characteristic measure.

Such a remedy did not, however, occur to, or suit the Shōgun's government. Possibly, they were without the means requisite to restore to the people the money formerly extracted from them through the debasement of their silver coin. At all events, what they actually did was something quite different, and, quite characteristically, was not calculated in the least to benefit the common people. The object being merely to stop the ebb of gold from the country the method adopted was simply to treble the value of the existing gold coinage, just as that of the silver issues had been previously trebled; and, as in the former case, the rich alone derived all the benefit that the measure afforded. Those who had kobangs in reserve found their hoards suddenly worth twelve bu per kobang instead of four, and therefore were no longer tempted to sell them at eight or ten. The government became better buyers than the foreigners had been, and so stopped this inconvenient traffic.

Effect of that measure on the people;

Still those Japanese who had only silk, or tea, or other merchandise to sell, were left to find their own remedy; their case, though it was no less hard than the other, being, apparently, indifferent to the government. The merchants, however, were not left long in the lurch and foreign trade did for them what the government left undone. Demand turned quickly away from gold to other articles, and so raised prices that before long \$1,000 per picul was paid for the silk which the farmer had but lately been glad to sell at the equivalent of \$200.

its creation of healthy commerce.

Then it was that a healthy foreign commerce first took root and began to develope in Japan; and then it was that the knell of feudalism, and of the misused power of the ruling class, began to sound.

What commerce is doing and promises to do.

A pleasant duty it will be to show how the rise of commerce which then followed stands related to the fall of the feudal government and the re-establishment of the Mikado's sovereignty; and how that commerce is steadily pushing this people on the road to liberty and power in a way which explains some of the hostility which the ruling classes still manifest toward a force which they distinctly feel to be unfriendly to their pretensions of superiority, and dangerously suggestive of coming changes in their relation to the people of Japan.

At present, we are content to maintain that foreign commerce could not have begun in this country without the aid of the blunder by which foreign silver was admitted at the over-valuation (as compared with gold and other articles) which it enjoyed during 1859: that but for that blunder it could not have taken root here, and this country might, and probably would, have remained to this day, as little opened to trade as it was when the Dutch were shut up in Desima and forced to transact business with government monopolists only: that whatever advantages the masses of Japan have acquired, whatever progress they have made, through the changes of the last twenty years, are the direct results of the trade so accidentally established: that foreign merchants are most unjustly reproached with having taken unfair advantage of the treaties in virtue of which they came to Japan: and with having redeemed from one unjust aspersion the reputation of those who, in the early days, brought to this country not only far greater sums in silver than they took away in gold, but also a leaven of liberty and enterprise which must eventually prove of greater value to the people of Japan than any stores of gold or silver, however great.

The successful inauguration of commerce the effect of the currency blunder.

THE PAPER CURRENCY OF JAPAN.

Japan Gazette, July 2, 1881.

A correspondent of *The Economist* ascribes the depreciation of Japanese currency to the "quality" of the note. This term has given rise to some misapprehension which it will be well to investigate. The *Japan Herald* takes exception to it, and avers that "quantity," not "quality," is the cause of the declining value of Japanese kinsatsu.

Correspondence in the *Economist*.

"T.W." rests his case on the following grounds:—

As a matter of fact there is none too much currency in Japan. Indeed if it is to continue to consist of irredeemable paper it will soon appear that there is *too little*, and inflation will be as loudly called for here as it was in America after the collapse of 1873. Even the government itself will be forced to inflation to meet continually rising prices. An increase of the currency is, therefore, more likely than any real reduction of it.

As a fact there is rather too little than too much currency in Japan.

Application of
deficient coin
reserve to pur-
chases of cur-
rency aggravates
the evil. *Better*
not *less* money is
required.

The device of occasionally applying portions of the already deficient coin reserve to purchases of currency in the market only aggravates every evil of the situation. It deceives no one; for it is believed that the notes withdrawn must soon be reissued or fresh notes issued in their places. And, it benefits no one (except a few speculators); for what the country needs is not *less* money, but *better* money; and depletions of the metallic reserve, which lead only to fresh exportations of coin, leave the whole financial system just so much the weaker. If the whole 20 millions of coin said to be in reserve were thus employed, the 150 millions of paper might be reduced to only 130 millions, but that remainder would then have no bottom whatever, and would speedily sink to worthlessness. It would then be seen that, instead of there being too much money in use, there was, in fact, no money at all, and trade would be obliged to establish some new measure of value, or, else, return to the mere barter of barbarous times. The history of paper money abounds in examples of such complete collapses of value, and Japan, as she now goes, is but too likely to furnish another.

Japan Herald.

The *Herald* meets this in the following terms:—

Quantity versus
quality.

As to the so-called 'quality' of the paper money it has undergone no change: it has always been as it is now,—simply inconvertible. Nobody ever took it formerly, or takes it now, to hold it under the expectation that the government will at some unfixed period be both able and willing to redeem it on presentation at the treasury. But it is taken to be used as real money,—as an instrument of exchange in all the daily transactions of life. Whether the currency be ever redeemed in part or in whole, either during this century, or the next, or never, is of no moment to its holders to-day, who accept it without a thought of its ultimate redemption. . . . Their 'quality' being unaltered, and the government being more firmly established than when first issued as a forced currency, 'T.W.'s' assertion does not carry conviction.

Quantity the
sole cause of the
low value of
paper.

. . . . But if the writer's (T.W.'s) mind were not possessed of an erroneous idea, that it is quality not quantity that is at the bottom of the low value to which paper money has fallen, he would see that inflation is the real evil that affects the community now, and is the sole cause of the mischief experienced.

To this "T.W." rejoined:—

Argument in
support of the
quality theory.

As to the facts, you imply that the present depreciation of kinsatsu results partly from the dubious position of the government before its power was fully established, and partly from the large issues necessitated by the Satsuma rebellion

in 1877. But if this were so the depreciation would have reached its maximum before August 1877, when the rebellion was finally suppressed, the government firmly settled, and the volume of kinsatsu at its height. Instead of this the fact is that there was no important discount on kinsatsu before 1878. In December 1877 the difference between paper yen and gold yen was only five per cent., and gold yen were then at a premium in silver. Even during 1878 the discount up to August was only seven per cent.

These facts appear to me to prove conclusively that government perils and large issues of paper had little or no influence. Further, according to Mr. Okuma's reports, there were more kinsatsu in circulation before June 1878 than there have been at any time since. Yet after the maximum issue the discount still remained small, and it was only when the amount in circulation had been reduced by more than ten per cent. that the value of satsu fell rapidly.

Greatest issue when the discount was smallest.

"T.W." then urged that until recently kinsatsu were convertible at par, and this during the period when, according to the *Herald*, they ought to have had their lowest value. To this the *Herald* replied by alluding to the time required for new paper to find its way to the treaty ports where the rates of exchange are determined; and causally mentioned the influence of the national banks upon the currency.

Paper at par when its value should have been lowest.

The object of both writers evidently is to trace the true sources of the depreciation of Japanese paper money. One adheres pertinaciously to the quality, a term we understand in this case to be synonymous with inconvertibility. The other obstinately rejects this theory, and holds to the more plausible one of quantity. To assert that a reasonable sum of inconvertible paper will not circulate at par with the coin it represents, is to oppose universal experience and the authoritative opinions of the best text writers; and appears as untenable as the opposite assertion that convertibility is of no moment to the holders of currency, "who accept it without a thought of its ultimate redemption." The essentials to a thorough understanding of the question seem to us to be, quantity, quality, issue, and circulation, all of which have to be considered because, intimately connected with each other, they exert in some cases a separate, and in others a partially or completely united influence upon our currency.

Object of both writers to discover true causes of depreciation.

Essentials to a sound understanding are quantity, quality, issue, and circulation.

When the first issues were made the government gradually absorbed the metallic medium and substituted

Issue.

Trusted at first. paper. These notes passed from hand to hand; they were required in the ordinary course of trade; the debt expressed on the notes was trusted; and no question of "quality" arose for the simple reason that a sufficiency of silver remained in the country circulating side by side with paper. The issues were, however, continued, the government employing this resource as a mere temporary substitute for taxation to an equivalent amount, and continuing to do so until metallic money had been entirely superseded. Arrived at this point the temptation to continue was irresistible, and fresh issues were made, which not being readily exchangeable as formerly for specie, required more time to enter into circulation. Had the government issue been in gold, the addition of any sum beyond the normal requirements of the nation would have led to a rise in prices equally with the rise which followed the emission of surplus paper currency. The tendency of this state of things with a metallic currency, is to increase importation and diminish exportation. Money being cheap here would naturally flow to countries where it was dear. This natural cause has an opposite effect when the currency is inconvertible. Prices rise, but artificially. John Stuart Mill says:—

Inconvertible paper issue means a rise in prices and a discount on the currency.

An inconvertible paper acts in the same way as a convertible, while there remains any coin for it to supersede: the difference begins to manifest itself when all the coin is driven from circulation (except what may be retained for the convenience of small change) and the issues still go on increasing. When the paper begins to exceed in quantity the metallic currency which it superseded, prices of course rise; things which were worth 5*l.* in metallic money, become worth 6*l.* in inconvertible paper, or more as the case may be. But this rise of price will not stimulate import and discourage export. Imports and exports are determined by the metallic prices of things, not by the paper prices: and it is only when the paper is exchangeable at pleasure for the metals, that paper prices and metallic prices must correspond.

When inconvertibility made. itself felt in Japan.

Inconvertibility was only recognized in Japan when the amount of notes issued was on a scale sufficient to have induced increased importation had the currency been a precious metal. There being no outlet for the surplus currency its depreciation became inevitable. Excessive quantity naturally drew attention to the quality, and both combined to establish a discount sufficient to reduce the value of the issue to a level with the sum

required for *circulation*. This is the discount, which fluctuates as more or less money is required for the nation's needs; as trade increases or diminishes; as the seasons are fruitful or barren. The question is not one of quality alone. If the notes were convertible depreciation could not take place, because the surplus issue would be returned to the issuers to be exchanged into gold for export, or to be deposited in banks' treasuries, and the volume, the *quantity*, would be restored to its normal condition. Fresh issues in Japan, beyond the sum the nation supported at par, so far as we have been able to trace their circulation, have had the inevitable effect of reducing the value of the whole, and have afforded proof that quantity first, and quality afterwards, are the true causes of depreciation. Will either "T.W." or the *Herald* be inclined to dispute the proposition that, assuming an issue of 150 millions establishes a rate of 160, the addition of 50 millions will have any other material tendency, when absorbed into circulation, and the currency has had time to settle, than to lower the rate of exchange to 215 or thereabouts?

Fresh issues have always caused further depreciation.

A proposition in support.

We do not think either "T.W." or the *Herald* has taken the trouble to examine the mischief wrought by the national banks. The former lays stress upon depreciation being smallest when the issue was at its maximum, and greatest during the process of contraction: while the latter endeavours to meet this by an imperfect allusion to the issues of the banks, omitting to show how those *issues* obtained *circulation* and influenced the position and value of government paper. The statements of the ex-finance minister, H. E. Okuma, show that on July 1st, 1878, the sum of government paper had attained its maximum, namely 121,054,731 yen. The rate of exchange then stood at about 107, at which figure it remained fairly steady until the early part of September, when a new force was brought to bear upon it. National banks, as most of our readers are aware, must invest eighty per cent. of their capital in the purchase of national bonds, and upon the latter being deposited in the treasury notes to an equivalent sum may be issued by the depositors. These notes are secured by being made exchangeable at the treasury on demand for kinsatsu, and they consequently float side by side with government issues. At the close of 1876 there were five banks with aggregate capitals of

Omission of "T.W." and the *Herald* to give full weight to the national bank issues of paper.

The maximum issue of government paper and the exchange.

National banks.

Their note issues.

Amount thereof.

Total issue of the banks.	2,850,000 yen, and note issue of 2,819,998 yen. In 1877, twenty-one new banks, capital 22,016,100 yen, and note issue of 19,932,863 yen; and in 1878, sixty-nine new banks, capital 10,675,000 yen, and note issue 7,405,135 yen, were founded. These ninety-five banks had, therefore, an aggregate note issue of 29,657,996
Business of the banks.	yen. Little if any real banking business was done by these institutions, the officers and shareholders being content to draw their interest upon capital bonds from the government, and make whatever they could in addition by usurious loans and speculations in rice and, finally, in currency. Their note issue was more or less nominal, for the banks' notes did not circulate to any considerable extent, there being a sufficiency of currency for trade requirements without the national banks' paper. We must, therefore, regard the <i>issue</i> in September 1878 as 150 millions of yen in round figures; but that sum did not represent the <i>circulation</i> , circulation alone affecting the exchangeable value of an inconvertible currency, and accounting for the rate of exchange ruling at any given time.
Their note issue did not circulate.	
Distinction between <i>issue</i> and <i>circulation</i> .	On the 9th September 1878 the government issued a notification permitting the mortgage and sale of pension bonds, and assessing rates of discount at which those bonds would be bought up by the finance department. The immediate consequence of this was to create a demand for currency against bonds, and early in October the native press announced that since the issue of the notification the sales to September 29th did not exceed 700,000 yen; but, on the following day, sales reached 29,361,715 yen; of which 28,941,065 yen was the proportion of purchases made by the national banks, and 420,650 yen by private persons. That other sales took place causing paper held by the government in reserve to enter into circulation there is little doubt; but the hostile criticism of the foreign press led to the suppression of further information. Here, however, we can account for a sum of 30 millions of yen, which up to that time existed only as an <i>issue</i> , entering at once into <i>circulation</i> . What was the consequence? Exchange for specie, which stood at 109 on September 9th, the day the notification was issued, declined to 121 on October 23rd. From this point a slight improvement took place, but a sensible rise in prices then set in and followed the demand of those persons who were endeavouring to
The unlucky notification permitting the sale of pension bonds. The amount sold.	
30 millions of paper forced into <i>circulation</i> .	
Consequence.	

utilize the money received for bonds which had previously been unnegotiable. The national banks' notes were almost suddenly transformed from issue into circulation, and the augmented currency sought an outlet which could only be found in its exchange for metallic money which could be sent to countries where it would be dearer than in Japan. But redemption was impossible. To get rid of the currency the holders consented to a discount, which must increase until the value of the volume of currency is equalised with the value of the trade it is required to perform: and to this it would have descended, and restored a steadiness to exchange months ago, had it not been for official interference with the natural course of events. This interference has been the source of serious depression, the effect of uncertainty of value; and the troubles have been augmented by the establishment of more note-issuing banks, no less than fifty-eight additional having been founded in 1879 and 1880.

Exchange would have found its level but for official interference.

Looking at the part these banks have played in the game of depreciation, we cannot follow "T.W." in his statement that when the issue of paper was at its maximum, depreciation was lowest; and as redemption began the value of the remainder of the currency declined. That government paper alone would have been liable to further discount than the quoted rate in August 1878 is likely enough; but that the mere quality, the inconvertibility of that issue, would have brought about a decline to 180 we cannot accept even as a possibility. The notification of September 9th, 1878, and the establishment of the national banks, are the primary causes of depreciation.

The notification permitting the sale of bonds, and the note-issuing banks the real causes of depreciation.

We confess that when "T.W." addressed the public through these columns, we were partly inclined to endorse the theory of quality; but reflection shows in the strongest light that if the vice of kinsatsu—the impossibility of redemption—is to be regarded as the cause of depreciation, the objection to them which holds good to-day had equal force when the first note was issued. Suspicion of the *quality* never arose until the *quantity* compelled the holder to have resort to the issuer. There he found no assets; and to make use of his capital he has had to submit to its diminution by giving away eighteen or twenty yen for the same commodities for which he formerly paid only ten.

The objection on the ground of *quality* existed from the moment of the first issue.

Conclusions of
the *Japan*
Gazette.

The view we take of this question is formed after very full consideration of arguments which are certainly worthy of it; and the conclusion to which we arrive is that, if an inconvertible currency can be made to do duty as money at all, it will pass on a par with real money so long as the notes issued are limited to the number which the public would retain without sending in for payment if convertible. The government are debtors to that amount, and they are trusted to that amount; but the situation is entirely changed the moment that amount is exceeded. Then, and then only, is the question of quality raised.

THE TOKIO CHAMBER OF COMMERCE ON CURRENCY.

Japan Gazette, July 2, 1881.

Tokio Chamber
of Commerce :

After the article on the "Paper Currency of Japan" ⁽²⁷⁾ was in type we met with a report made by the Tokio Chamber of Commerce, at the request of the government, into the causes of the decline in value of silver and rice observable during the last two months.

Its fundamental
errors in regard
to the nature of
currency, and
the effect of
trade.

The report refers to the influence of supply and demand as an invariable law which has affected these two commodities in the usual course. This is so far intelligible, but incorrectly applying the principle to silver the chamber falls into error of a serious kind. Thus, the report says the demand for silver yen is greatest when imports exceed exports, which was the case from April to November last year. We cannot avoid expressing surprise that a body of merchants who lay much stress upon the operation of the laws of political economy, should adhere to the notion that the balance of foreign commerce is in any manner connected with the fluctuations in paper. Sufficient evidence has been adduced to show that the excess of importation is the payment made by foreigners for their residence in this country; and that, as a matter of fact, silver is imported to defray the balance of trade, which is largely in favour of Japan. These indisputable truths appear, however, to be wholly ignored, as is also the true cause of the fluctuation of silver, or paper, or both. The sudden rise from 180 to 160 is ascribed to foreign trade,

Excess of im-
portation is the
measure of
Japan's benefit.

(27) *Vide* p. 237, *et seq.*

which is incorrect; instead of to the season of increased business, enlarged interchange of commodities, which is correct. To illustrate this we submit to the Chamber of Commerce the paradox following for the earnest consideration of the members. Foreign trade is called adverse when imports exceed exports; when, in fact, Japan receives more than she gives away: and it is called favourable when she gives away more than she receives. Putting aside this mistaken theory, let us assume the proportion of Japanese foreign trade to be now;—imports 36; exports 28; difference 8, which Japan has to provide for; paper money 160 to 180. How is payment of this balance made? Do her merchants pay in gold or silver? The official returns prove that they do not. The true answer is, that the foreigners who conduct the business receive from Japan commodities worth 28 which they export; a portion of the balance, 8, is paid by Japan also in the form of labour rendered, commodities supplied for consumption on the spot, land rented, building material supplied, and considerations other than money. Let the present trade regulations and tariff remain in force, but prevail upon the people to produce commodities worth 56 instead of 28; double production, in short. The effect of this would be, imports 74; exports 56; difference 18; paper money 125. Treble production, and make exports 84; imports 114; difference 30; paper money at par. This may seem absurd to persons who argue as the members of the Tokio Chamber of Commerce do. To assert that so heavy an excess of imports means an influx of wealth and the restoration of the credit of the state, appears to be a contradiction in terms, whereas it is a truism. If you enlarge your foreign business, and so long as you keep up an excess of importation, you must grow rich. You are, in such case, receiving more than you give away. Turn the course of trade to an excess of export, and it is manifest you are giving away more than you receive. Your own accounts show that in 1880 you imported worth 36,000,000 and exported worth 28,000,000; and does it not stand to reason that if these imports have passed into your hands in return for your exports, you are the gainers? Probably not gainers to the full extent implied in the figures, for your labour, and goods consumed by foreigners not exported, must be considered as helping in some measure to account for a

An illustration.
Increased trade will lead to higher value for currency, provided the latter be not increased.

How is the excess of imports paid for?

payment by foreigners to you much in excess of the value of the commodities received by them from you. That an excess of import goes on is evident; that you do not pay for that excess in precious metals is clear from your own returns; that you are not indebted to the importer is certain; how then can such an excess of imports as you have at present be otherwise than beneficial to you?

Increased trade increases demand for a circulating medium.

If, as already supposed, you should treble your foreign commerce, you may ask, how is that to improve the position of the currency? The answer is simple. Increased trade means an enlarged demand for a circulating medium. There has been an increased trade during the past two or three months; hence the improved value of kinsatsu: the moment that trade slackens, kinsatsu will again decline. If, therefore, a permanently increased trade is established kinsatsu will be permanently improved in proportion to the increase, provided no new issues are forced into circulation; and had the Chamber of Commerce urged this upon the attention of the government instead of dwelling upon the worn out and impossible theory that foreign trade, as it stands at present, affects the condition of an internal inconvertible currency, some benefit might have resulted.

Japan was most prosperous when her imports were in excess of exports; and vice versa.

We cannot conclude this article without asking the Chamber of Commerce to explain itself. If excessive importation is the cause of currency depreciation, how does it come to pass that during the earlier months of this year, when the "balance of trade" was in "favour" of Japan, that currency reached its lowest point? On April 1st the currency quotation was 181½. During the month of April imports exceeded exports by 1,084,724 yen, yet on May 1st the rate had risen to 169½. During the month of May imports exceeded exports by 446,481 yen, yet on June 1st the rate had reached 162.

An influx of specie unless to the treasury would not materially improve paper.

Finally, if fifty millions of silver dollars were paid to the merchants of Japan to-morrow, can it be supposed that the latter would rush in and buy paper in order to create a demand for it against silver? The effect of an influx of silver must be the further discrediting of paper; merchants in such a case would make their contracts among themselves for silver, using paper only for the payment of taxes. The government, be assured, could not receive any benefit from an increased supply of silver derived from commerce unless they became them-

selves traders; but they would have an excellent pretext for increasing taxation and levying a certain portion thereof in specie. This can be done when Japan offers some more commodities for sale. Foreigners want your productions not your money; but your policy prevents him from having either.

THE question discussed in the preceding pages⁽²⁸⁾ had, some months earlier, been raised by "T.W." in letters addressed to the *Japan Gazette*. The letters created some sensation at the time; and a very general opinion was expressed to the effect that the writer had struck at the root of the currency evil; and his contention that the cause of depreciation was the inherent vice of the government notes, and not over-issue, was regarded as sound. These letters will be read here with interest.

KINSATSU.

To the editor of the *Japan Gazette*.

SIR:—Recognizing the valuable service you are rendering to the public by the interesting discussions on finance which appear in your paper, I desire to contribute to the elucidation of that subject, and beg you to allow me space for this letter.

I am obliged to differ from the view taken in your issue of 12th instant and to agree with H. E. Okuma and Mr. Watson in the opinion that the volume of currency now circulating in this empire, be it only 110 millions of yen, according to the official statements, or 135 millions according to your more plausible calculations, is not too large for the business of Japan.

I think there is much reason to believe that, even if the currency consisted of real money instead of pretty scraps of paper, 150 millions would not exceed the requirements of 35 millions of people. That would be less than 5 yen per head. The amount of currency in use in most of the western nations far surpasses that ratio, and it is there aided by systems of credit and

A new view of depreciation.

The volume of currency is not too large.

Amount of currency in western nations exceeds that of Japan, trade, &c., considered.

(28) Vide p. 237, et seq.

adjustment which multiply its efficiency to a degree greater than any difference existing between these countries and Japan in the activity and importance of their commerce.

Rather too little
than too much.

It is even probable that, with the growth of business in Japan during recent years, considerably more than 150 millions would find full employment. And it is certain that, with continually rising prices, 150 millions of currency will soon prove too little rather than too much for general convenience. The daily experience of every one engaged in business here affords ample evidence in this respect.

H. E. Okuma is
partly right,
but is led into
error.

On this point, therefore, H. E. Okuma, and those who agree with him are, in my opinion, quite right.

But the possession of this particular truth leads them, apparently, as partial vision often does lead men, into a multitude of errors, and enables them to induce error in other minds. For they argue that, since the currency is not excessive, it must be good, and would prove so but for adverse external influences, chief among which is a so-called unfavourable "balance of trade."

Depreciation is
due solely to
inferiority of
the quality of
the paper. •

Now I venture to maintain that the depreciation of the Japanese paper currency is due wholly and solely to its inferior quality, and not in the least to its exceeding quantity; and that all explanations of that depreciation founded on any other considerations are erroneous and misleading. The attempts lately made to improve its value by reducing its volume have, it is well known, completely failed. The reason of this failure, and the fundamental defect of kinsatsu, is that they are not money in any proper sense of that word.

Money must
have an intrinsic
value.

Money is something which must possess intrinsic value. Printed or written papers possess no such value, and are therefore not money. If believed to be convertible sooner or later into money these papers become current, and acquire a purchasing power, their worth depending entirely on the degree or prospect of such conversion; If believed to be finally inconvertible into money, they gradually lose worth and currency, and ultimately become rubbish; and whether there are few or many of them in circulation the law which governs them is just the same.

If inconvertible
it is rubbish.

Japanese have
found this out.

This is what the people of Japan are finding out, and it is the true and only cause of the present low price of kinsatsu.

These paper promises have taken the place of real money because debts in Japan can be lawfully paid with them. But that does not change them into money any more than my individual promissory note becomes money when I sign it and hand it over to you in exchange for your property. If I am known to be able, and to intend, to pay my note in money, that note will have a value while in your possession, or in circulation; but the extent of that value will depend entirely on your own, or the general, opinion as to its ultimate payment. If that opinion is that I will not, and cannot be forced to pay it, it will have no value, and the question whether I have issued many of such notes or only a single one will seem to all sensible men a ridiculous question, not worth consideration.

Paper money must depend upon the credit of the issuer.

The principal difference between a government note and a private note is that creditors are not compelled to take the one, but may be compelled to take the other. It is this compulsion alone which gives currency to such paper as kinsatsu. But the compulsion in no way augments the value of the paper—on the contrary, it tends to impair it; for each holder of it estimates its value according to the chances of its being paid, and the compulsion implies that it may not be paid.

Difference between government and private paper.

No doubt it is generally supposed that the promises of a government are more reliable than those of an individual, and therefore government notes pass easily into circulation. But as a matter of fact and history, this supposition has often proved quite wrong. Even the American government, with all its surplus revenue, and all the great wealth of that country at its command, is slow to redeem its "greenbacks," and nothing but the general confidence that they will be, and the general determination that they shall be ultimately paid, gives them their present value.

Belief in government credit is not supported by history.

The theories of those who pretend that the depreciation of government paper in Japan is due to an adverse "balance of trade," or to excess in volume, are therefore equally without foundation in fact or in reason.

Contention that depreciation arises from trade or over-issue erroneous.

But if the elementary considerations above stated leave any one in doubt on the subject, let me ask a question or two to elucidate it.

1.—What possible effect can any "balance of general trade," or "balance" of anything general, be it *pro* or *con*, have on the particular ability of the issuer of a

Reasons.
1. Balance of trade.

promissory note to pay that note? I grant that an increase or falling off in general trade may *assist* or *hinder* the payment. But that is not part of the question, which refers solely to a "balance of trade;" that being the phrase used in the argument, however little it may really mean. How, for example, is my ability to redeem my obligations increased by the frugality or prosperity of my neighbour? Is he likely to employ his earnings or savings in paying my debts? Or, take the case of a bank without funds to redeem its issues; what benefit can that bank's creditors derive, as creditors, from the circumstance (if it exists) that the other banks in the country show favourable balance sheets?

2. If trade is restricted the government will not reap the benefit?

2.—Suppose that this government succeeds in preventing individual Japanese from buying foreign articles; will those individuals hand over to the government the money they wished to spend on those articles? And if they do not, how will the government be better off for hindering them in their purchases? Will it not, in fact, lose just the amount of taxation it would have collected on those purchases?

Governments are not traders. They should produce nothing but good laws and good order.

That it may save its own money by not buying foreign luxuries is plain enough. But wherein does it save money by compelling Messrs. Ainosuki and Seikitchi to do the same? Is it going to confiscate what would then remain in those gentlemen's purses? And if not, how will it get that money from their hands into its own? What has it to sell that Ainosuki and Seikitchi want more than the foreign things they are prepared to buy? Governments are not, or ought not to be, producers of anything but *good laws and good order*. For these, Ainosuke and Seikitchi already pay their share in their taxes. How then, is the government going to get any further contributions from them? Is it to be believed that their patriotism will be so intense that they will be glad not only to do without the commodities they wanted to buy, but to transfer spare cash gratuitously to the government coffers? And if they determine not to do so, but to keep it for their own use, what has the government gained by preventing their spending it as they wished to do?

Possibly these simple questions may appear to the "balance of trade" theorists altogether foolish and impertinent. But if any of them will take the trouble to answer them as individuals, and then multiply each

individual answer by the population of this empire, they may get a clearer view of their problem than they seem to have attained up to this time.

The plain truth is that, beyond good laws and good order, government can offer nothing else that is good in exchange for the people's property or services. If it offers anything else it is sure to be either dearer in price, or worse in quality, than the people could make for themselves or could buy elsewhere. And nothing that it does offer can be dearer or worse than paper substitutes for good money. It is enabled to force such paper on the people by its power, and by taking advantage of the rule that money is a commodity which, though not produced by any government in the world, but by the people alone, yet requires a government stamp to give it convenient currency. And when great necessities press governments do not hesitate to avail themselves of this power and to take this advantage. But at least they should do so frankly, and with the purpose of repayment at the earliest possible moment; and should not try to cloak their proceedings or their failure by nonsense about "balance of trade," or other things which are in no way concerned in the affair.

As to the "balance of trade" theory by itself, it would be easy enough to show that none of the statistics now used to prove it are correct. That they do not represent a real state of things, every one at all familiar with them knows full well. H. E. Okuma probably knows this also, and his partisans in the chamber of commerce ought to know it. To appeal to these figures as evidence that there is a "balance of trade" for or against Japan, is almost as irrational as to assert that any "balance of trade," good or bad, affects the value of any paper promises afloat in this country, whether they be issued by the government or by private persons.

The true and only reason why good money has gone out of use in Japan, is that good money and bad money cannot live together. They are as hostile to each other as red ants are to black ones. The people of this country having been compelled, or having consented, to employ paper tokens as a measure of value instead of real money, had no further use for the latter, and consequently they hastened to exchange it for other commodities, or hid it away until it should again be wanted. It will not come back from foreign countries, or emerge

If any thing else is attempted by a government than the creation of good laws the people must suffer.

Statistics on which the balance of trade theory rests are untrustworthy and unreal.

Good and bad money are antipathetical, and cannot live together.

from its hiding places, until the government, which has borrowed from the people the 135,000,000 yen now represented by kinsatsu, shall have begun to repay that loan, or until the people shall have found out that it is not to be repaid; that its representative promises are worthless; and that they must set themselves to create, by their own labours, as they did at the beginning of trade, a fresh stock of real money to replace these promises in their currency.

Prospect of redemption consoling; but *hocus-pocus* processes are disheartening.

It is consoling to know that H. E. Okuma so far recognizes the truth of this self-evident proposition, and so far appreciates the danger of leaving the individual holders of kinsatsu dissatisfied, that he proposes to reserve for their gradual payment a certain sum each year, to be applied faithfully to that purpose; and every well-wisher of Japan must desire his success in that endeavour. But it is somewhat discouraging to find that he, and so many others with him, rely for success on such mere *hocus-pocus* processes as manipulation of "trade balances," interfering with the liberty of private persons to spend their own money as they prefer, and engaging the government in ruinous commercial competition with individual subjects to whom it owes the free exercise of every private right and opportunity.

While such long since exploded fallacies pass as wisdom, or reign as policy in Japan, there is little chance of any financial improvement, either in kinsatsu or otherwise.

T. W.

February 14, 1881.

To the editor of the *Japan Gazette*.

Inconvertible paper is not good to any extent.

SIR:—Referring to your remarks on my letter of yesterday, I wish to point out, in order to keep the question within clear limits, that the difference between us is that you seem to hold that a certain sum of "inconvertible" paper currency can be maintained at par, and is therefore good to that extent. What I maintain is that *inconvertible* paper has no right to circulate at all, is not good to *any extent*, and that this is true whether the quantity of it issued is much or little,

No man, or council of men, in this country or in any other, can possibly be wise enough to determine what amount of currency a nation requires. Only natural laws, working through individual need, can determine that question. When the currency is real money, possessing intrinsic value, its volume is regulated automatically, and, as Professor Price shows, any surplus is put aside or sent out of the country.

Automatic regulation is impossible with our inconvertible currency, and the arbitrary regulation which is attempted instead of it is almost sure to be abused, and is quite sure to work mischief in one way or another.

The argument of Professor Price, which you cite, refers to *convertible* paper—paper which, being truly representative of metal money, is governed by the natural laws which govern money.

With regard to the *inconvertible* note he says "it is a bad tool, does evil work, distinctly produces harm, and is sure to be issued in excess."

I do not ignore the fact that kinsatsu were formerly at par with silver. But that was not owing to their being limited in quantity, but because holders of them then believed them convertible into silver. If this belief had been well-founded it would have endured till now, and no man would enquire how many notes are out. This question is now asked because that belief is fading away, and it has become important to consider what are the resources of the debtors in proportion to their outstanding obligations. Since it has become plain that these resources are frightfully inadequate, the notes have fallen in price. But I wish to emphasize the fact that it is their badness of quality—of which their volume is merely an index—which produces this effect. It seems to me essential that this truth should be clearly apprehended, and not obscured by other considerations, which, even if equally true, are not of equal importance.

T. W.

February 15th, 1881.

P.S.—The following extract from Professor Price's book p. 442, sums up what he has previously said about inconvertible paper currency.

No one can tell what sum a nation requires as currency.

Regulation of inconvertible currency impossible.

Professor Price on convertible paper.

On inconvertible paper.

Kinsatsu formerly at par with silver due to confidence in the issuers.

Professor Price on inconvertible currency.

One plea most commonly urged in defence of inconvertible bank-notes appeals to necessity, the political distress of the hour. The state is in sore want of means, and the limit of taxation has been reached; what else can a government do at such a time to provide what is indispensable for the safety of the nation, but pay with promises to be made good at some future day? With these inconvertible notes it pays no interest on what it borrows; by an increase of the ordinary national debt an increased taxation would have been unavoidable. This may be so; at a moment of danger such a proceeding may admit of some excuse. But it should never be forgotten that the harm inflicted by such a currency goes on uninterruptedly year after year; it never stops; it is always working fresh injury. It goes on persecuting society at every turn. It poisons every sale as time rolls on, every exchange. Overwhelming necessity may extenuate the imposition of so easy but so vicious a tax. But the pressure once over not a day should be lost by any legislature which has any knowledge of the nature and working of money, to arrest the plague and sweep away the inconvertible paper, which it felt forced to have recourse to in the hour of danger.

To the editor of the *Japan Gazette*.

A reply recapitulating the contents of a letter not reproduced here.

Difference between government and private notes.

Notes may be floated without being good.

If not good all are in excess.

If any good all are good.

Inferiority of notes soon discovered.

SIR:—Important as it may be that your readers should obtain clear views on the currency question, I cannot so far trespass on their patience or on your space as to reply fully to "F.'s" letter in your paper of yesterday. But I will ask you to allow me room for a few observations on the points he refers to.

1. The notes of a government and those of a merchant or banker are not analogous in the way "F." supposes. For the latter are founded upon, and imply, ample and available assets, and are therefore convertible. If the former were similarly founded they would not be inconvertible.

2. No one doubts that a certain amount of notes without foundation can be kept afloat. Private persons frequently float such notes; and *a fortiori* a government can do so. But that does not make them good notes.

3. If they are not good they are *all* in excess of the public requirements. For what is bad in its own nature does not become good by reduction in quantity.

4. If any of them are good, they are *all* equally good; and of good money there cannot possibly be an excess in any country.

5. When much bad money is in circulation its inferiority is soon discovered. But the detection and expulsion of some of it do not improve the quality of what remains.

6. I do not mean to imply that kinsatsu are worthless. They have their value as government obligations. For, although governments may be, and generally are, without any saleable assets, they control the assets of their subjects, and with them can pay the public debt. Their obligations are estimated, however, according to their known intentions in this respect. If it is believed that a government will not, or cannot, use this means of payment, its obligations decline in price, without much regard to their number. Turkey is an example.

Kinsatsu not absolutely worthless.

7. The opinion that 100 millions of inconvertible paper can be made to float at par in Japan may be a perfectly sound opinion. But it has exactly the same foundation, and no other, as the opinion of any individual in regard to his ability to float a certain amount of his private paper without assets behind it. He may succeed but his success imparts no value to his signature. Nor are his victims better or worse off by his succeeding more or less.

Quantity that may float is surmise only.

8. The fact that ignorant or credulous persons regard a paper note as money *per se*, does not make it so. It only explains why even inconvertible notes obtain currency.

Acceptance does not make an inconvertible note good.

I trust that these remarks will be understood as referring only to inconvertible notes. For it is to such notes alone that my arguments apply. What I wish to show is that the defect of kinsatsu is their inconvertibility, and, therefore, that their quantity is immaterial.

Kinsatsu being inconvertible their quantity is therefore immaterial.

T. W.

February 16th, 1881.

IN *The Economist* of April 23, 1881, appeared a letter from the same correspondent on the question of the paper currency of Japan. The *Nichi Nichi Shinbun* subsequently published the following comments thereon, recapitulating, to a great extent, the contents of the letter, and rendering its reproduction here unnecessary.

THE PAPER CURRENCY OF JAPAN.

Nichi Nichi Shinbun, July 10, 1881.

Estimate of
paper in cir-
culation is correct.

Sale of specie
admittedly
inexpedient.

Reasons for sale
of specie.

The estimated sum of 150,000,000 yen of paper money made by a correspondent of the London *Economist* is fairly correct; and the assertion that simply reducing the volume of an inconvertible currency is useless, as the cause of disease is quality not quantity, is right. The author of the letter then refers to the sale of specie, official trading, and a foreign loan, in words which correctly convey our own people's opinions on the same subjects. He may be said to have exhausted these points, but we have a few words to say about them. First, with regard to the sale of specie we know the government are fully aware of the inexpediency of such a measure, and appreciate the folly of attempting to restore the value of a currency of 150,000,000 by disbursing their 20,000,000 of specie in a purchase of part. "T.W.'s" argument is, therefore, superfluous on this point. It is true there were two or three instances of the government selling specie; but their object was to frustrate the schemes of some over clever persons who were believed to be speculating in order to injure the currency by purchasing specie which could not be forthcoming. This action was, however, opposed to economical principles; it was adopted as a temporary remedy and resulted, as the writer says, in the benefit of a few speculators, no one else gaining by it. Since then we have never heard anything about the sale of coin, so that the argument of the writer falls to the ground, for, however cogent it may be, it does not apply to the government's policy though it may reflect upon the past acts of some of the officials.⁽²⁹⁾

(29) This statement is not quite accurate. The transactions to which the *Nichi Nichi Shinbun* refers are no doubt those in which Mr. Godai was interested, and in which 1,800,000 yen of treasury specie played its part. In November 1880, H. E. Okuma told Mr. Kennedy, H.B.M. *chargé d'affaires*, that during the past two years twelve millions in paper had been withdrawn from circulation, and an equal sum of specie taken from the "reserve fund" had been placed on the market. True, this statement is at variance with previous reports sanctioned by H.E. Okuma and published; and the discrepancy has never been explained though we are confident it is readily susceptible of explanation; but the circumstance must surely be within our contemporary's knowledge as an instance of the sale of specie referred to.—ED. J.G.

Second, with regard to official trading. The gov-
 ernment have not willingly engaged in trade, doing so
 only to encourage the people to develop production ;
 and for these purposes the government did engage in
 trade and, in addition, established works, factories, and
 training places. This action has no connection at all
 with currency or its remedy ; it was undertaken to
 improve industry ; still the absurdity of the government
 engaging in unsuitable business which injured private
 enterprise and impeded the progress of the country, was
 early perceived, attracted the attention of thinkers, and
 has been exposed to public opinion. The consequence
 of this has been that the policy is changed, and no
 further fear exists of official competition in trade in the
 future. Moreover, the minister of trade and agriculture
 had issued his notification before the writer had given
 his opinion which has, therefore, no longer any appli-
 cation.

Official trading,
and its object.

Policy
abandoned.

Third, with regard to a foreign loan, we can only
 say that any such scheme is a thing of the past. When
 the suggestion was made many able men denounced it,
 and the matter was fully discussed in the cabinet, dis-
 missed from further consideration, and there is no
 chance of it being again thought of.

Foreign loan
discarded.

On all these points, therefore, the government are
 well informed ; and no benefit is conferred by the
 writer's ideas on such subjects, although we readily
 admit the sincerity of his motives with regard to our
 country.

Government
well informed
on all these
points.

Thus far we have encountered 'T.W.' in his objec-
 tions to the policy of the government, and we have now
 to examine his propositions for restoring the value of
 the currency. His argument is that depreciation is
 caused by quality not quantity. Very good. We agree
 with him on that point. Then he adds that as a matter
 of fact there is none too much currency in Japan, and if
 it appears that it is to continue to consist of irredeem-
 able paper it will soon seem there is too *little*, and
 inflation will be as loudly called for as it was in America
 in 1873. This may be true. He further says the only
 remedy is to increase the amount of specie reserve, and
 to adopt resolute measures for that purpose. A writer
 of such knowledge who sees the cause of disease and, to
 some extent rightly, points out a remedy for it, is entitled
 to all praise.

Quality not
quantity cause
of currency
depreciation.

Increase in specie reserve advisable; but not by further taxation.

Taxation has lately been increased.

Japanese have no political rights.

We agree with 'T.W.' in his assertion that the true remedy lies in increasing the metallic reserve: but one of his effectual means to this end is higher taxation. This is a perplexing statement to be made by a writer of so much knowledge, for he says, in an earlier part of his letter, that taxation seems to have attained its maximum in Japan, and that the blind obedience which enabled the shōgun and daimio to take what they pleased of the people's products can no longer be expected. This statement proves this foreign writer clearly perceives the real condition of this country, for which we much admire him; but he suddenly changes his argument and asserts that the people being favoured with good crops for some years are not unable to endure increased taxation. This is an inconsistency. As the writer asserts, it is true taxation has reached its maximum and the people object to further imposts; therefore we fail to see the reasonableness of forcing new taxes because the crops are good. Indeed, if good crops were sufficient reason to levy new taxes, bad crops would be reason for their repeal, and the revenue, like the crops, would vary with natural laws. Then to apply taxes varying year by year according to the fruitfulness of the seasons to the reduction of the currency, cannot be considered either expedient or effectual. Moreover, taxation has been increased by a notification issued last November. Does 'T.W.' not know this? Local taxation, which formerly was limited to one-fifth of the land tax, is now one-third. This is not a very great increase, still in many ken the people seem to suffer from the additional burden put upon them. How, then, can further taxation be borne? We think 'T.W.' well knew the impossibility of new taxes, but, unable to discover any other remedy, he seems to have tried to mislead, for he proceeds to say there would be a little popular opposition to the measure at first, but ere long its opponents would feel that the reduction of paper is for their own benefit; and that, for the majority of them, it would, as was the case in Russia after the Crimean war, prove really advantageous. Fearing he may be mistaken in regard to the willingness of the people to bear additional taxes, he refers to Russia as an example. This is rash. Our countrymen have no participation in the political rights of this country, and the writer's attempt to arouse their patriotic spirit will

not succeed. Is the writer able to convince the people that additional taxes will be faithfully applied to the reduction of the currency? He is not. Does he not know that our government is not constitutional? In other words, does he especially refer to Russia after the Crimean war knowing our government to be an absolute government? The writer does not, we regret, understand the real spirit of our people. [Note.—The obscurity of these passages is not due to translation. The same ambiguity and irrelevancy attach to the original, which is almost unintelligible to the Japanese reader. Translator]

Obscurity of these passages.

'T.W.' then asserts that increased taxes would necessarily compel the idle to work, and their industrious spirit would be strengthened, thus giving expression to a mistaken notion that fresh taxes will not only reduce the amount of paper money but confer an immeasurable benefit upon the country. We do not know upon what class 'T.W.' intends to levy new taxes, but judging from his allusion to the crops as supplying the means, we take it the farmers are to be taxed. Does 'T.W.' then place Japanese farmers on a level with roving tribes, or with the Hindoos who prefer ease to the neglect of husbandry? The case is essentially different. The burden upon Japanese farmers is not lighter as compared with farmers in Europe and America, but rather heavier. They have been just released from the suffering they sustained under the feudal system; even under that condition the agricultural resources of the country are so developed that little remains to be done in that direction consequent upon the natural industrious habits of the people. Therefore it is necessary for the benefit of the country to lighten the burden upon the farmers and improve their position, and eventually apply capital and labour to manufactures and industries. Instead, however, of advocating measures of this importance, 'T.W.' wishes to force heavier burdens upon the agricultural class to stimulate their industry; advice equivalent to that which recommends the oppression of a tyrannical government as a means to develop the spirit of the people. In such reasoning few thinking men will agree.

Taxation must fall upon the farmers.

The Japanese farmers sustain heavier burdens than their American or English confrères

Their burdens should be lightened.

Another remedy suggested by 'T.W.' for the restoration of the value of currency is the encouragement of production. Private enterprise and individual exertion. Principle of 'T.W.'s' arguments undeniable.

tion are indispensable to extricate the nation from its difficulties, and for this purpose good laws impartially administered are necessary. Arguments of this character are undeniable in support of the policy of developed industry, but when applied to the restoration of currency we may doubt their expediency. We, however, may take the writer to mean this:—If the production of the country be promoted its wealth will increase and sufficient gold and silver will be paid into the treasury to transform the currency from inconvertible to exchangeable. But, as a matter of fact, the first and direct object is the promotion of production; the secondary and indirect object being the restoration of currency to its normal value, and this must be borne in mind in the subsequent comments we have to make.

Injurious
tendency of
government aid
to industries.

After mature and deliberate reflection upon the subject of our productions and industries since the restoration, we find that every company or manufactory deserving of notice in any way has been furnished with capital by the government, or it has been protected from all competition, or been endowed with special privileges by the same power. The consequence has been that any undertaking of private persons has been materially injured from its inception by the all-powerful influence and sustained opposition of protected companies, so much discouragement being caused thereby that private enterprise has been virtually extinguished. Examples of this are numerous; and especially in those cases where the government themselves have engaged in business the injury has been still more serious, because those officials in charge of the business, forgetting their true object, and desirous to display zeal in the service of the government, have acted with marked success in the furtherance of an apparent policy to overthrow all private undertakings. Knowledge of these things, no doubt, led 'T.W.' to allude to the mistake of government trading. Since last year the government have been convinced of the folly of official trading; and they have openly announced their desire to dispose of all government industries to those desirous of acquiring them; therefore, with the exception of a few railways, and direct exportation companies, there is no undertaking specially protected at present. The new department of agriculture and commerce is the outcome of government conviction that official trading and inter-

Government
now convinced
of their error.

ference with private trade should be abolished ; and that general encouragement and protection should be accorded to production. Time sufficient to prove the value of this policy has not elapsed ; but judging from what we know of the department, its system, and the notifications emanating from it, the object plainly is to promote production and foster industry by good and impartial laws.

This being the case, the second remedy suggested by 'T.W.' had been adopted before his allusion to it ; but we remain unable to see what direct effect it will have upon the development of production ; or how, indirectly, it can affect the currency : and fear the time is far distant when the latter object will be attained by these means.

'T.W.' then adverts to improved means of transport as the third remedy for the currency, and says that to prepare good roads for this purpose is most important, the chief point being to construct them in such a manner that traffic should be quick and easy ; and that the most necessary are short lines from the interior to ports on the coast. Now this plan relates to increased production also, but its connection with currency is exceedingly remote. The present government have long been engaged in converting steep, uneven, and winding roads into level lines, constructing bridges and doing other things to improve transportation by land ; while at the sea side they have built ports, lighthouses, &c. Nothing that would facilitate transportation has escaped the attention of the government ; and internal improvements innumerable have been carried out at the expense of the treasury, the local taxes, or of private subscribers. Among other efforts in this direction the industrial loan is being employed in extending railways and constructing harbours, on the completion of which our means of transport will be improved. The advice, therefore, is not necessary, for our government may be said to have made great efforts in this direction long before 'T.W.'s' letter was written. Does 'T.W.' mean that railways should be constructed from the interior to the coast, and not mere ordinary roads ? Of the value of railways our countrymen are well aware ; a great railway company, the Nippon Tetsudo Kwaisha, is already established, and we are informed of another to be called the Hokuriku Tetsudo Kwaisha, a private enterprise, but time must

Improved transport is but another means of encouraging production.

Efforts of government in this direction.

Advice superfluous.

elapse before the works even approach completion. Moreover, the construction of great railways means the conversion of movable into fixed capital, a part of which flies to foreign countries for material. Then also railway extension means a change in the politico-economical policy of the nation. What will be that change? Is there no fear that measures for encouraging production may lead to the decline of production; and the policy which aims at the restoration of the value of the national currency tend to create still greater depreciation?

Result of an examination of the propositions of 'T.W.'

The result of our examination is this. The first of the measures proposed by 'T.W.', namely, increased taxation, cannot be adopted without adding to the existing burdens of the people. The second measure, development of production, is not calculated to yield any immediate benefit. And the third measure, the construction of roads, does not promise any directly beneficial result. The consequence is that none of 'T.W.'s' plans can be regarded as effective remedies for currency depreciation, although suited to the condition of the country itself: while the value of the suggestions is still smaller from the fact that the government had adopted them before the letter was written, and had proclaimed increased taxation in the form of higher local taxes and enhanced duty on saké, the sale of all officially conducted industries, the withdrawal of all official interference with trade, and the resolve to enforce strict economy in the administration, by which means 10,000,000 yen yearly is to be saved and applied to the reduction of paper. Unfortunately there is nothing beyond the mere declaration that the 10,000,000 will be applied in reducing currency: the method of reduction is not stated, and we are left in ignorance as to whether the surplus is actively used in reducing paper, or merely accumulated in the treasury as part of the reserve fund. We only know that depreciation has not stopped; the rise of prices is extraordinary and continuous; as a matter of fact the expenditure of the government increases in the ratio of prices, compelling the application of the 10,000,000 yen to cover the deficiency of revenue. Financial difficulties grow with rapidity; improvement comes very slowly. We do not like to censure the government for their inability to apply the 10,000,000 of the professed surplus to the reduction of currency,

Should they use money for that purpose the enlarged expenditure can only be met by further issues of inconvertible paper to the same extent. No additional mischief may result, but the position of the currency is hopeless. Recourse must be had to other remedies; but what are they? There is one which, to our great grief, we are prevented from adopting by the action of foreigners who ardently adhere to their self-interest. This measure is increased taxation and encouragement of production and industries. We do not mean increased taxes on the farmers, but higher customs duties. The customs returns show that in the last half-year of 1879 import duties amounted to 861,241 yen, and in the first half-year of 1880 they were 850,578 yen, a total of 1,711,809 yen. This sum is on a scale of 5 per cent. fixed by treaty, and if the duties were levied according to the old treaty, that is at 20 per cent., the sum would be 6,847,236 yen. This amount applied in reduction of currency would have considerable effect; but nothing can be done in this way until foreign governments agree to revise the treaties.

We mean by encouragement of production and industries the introduction of foreign capital into Japan. We treated this question a few years ago, but the time being then unripe for such a scheme public opinion was against us, and we were unable to see any prospect of the realization of our projects. Now, however, to our great surprise, we have a writer of the same opinion on this point. He holds it to be mistaken policy not to permit the utilization of abundant foreign capital in Japan. That is our opinion also, though we differ with 'T.W.' in parts, one of which is his apparent omission to consider treaty revision. If we introduce foreign capital under the present treaties we fear much mischief will arise before any benefit is experienced. Therefore, if 'T.W.' is sincere in his intentions to give our people the benefit of foreign capital, why does he not ardently enter upon a discussion to show the necessity of treaty revision, first of all pointing out its expediency to his own government? If existing treaties are revised foreign capital will flow in, and taxation can be increased; and if then the currency is not restored we will humbly follow 'T.W.'s' directions: but while the present treaties remain in force it may be reasonably said that the impossibility of restoring the value of our currency

Recourse must be had to other remedies.

Higher customs duties.

Foreign capital should be introduced.

How this is to be done.

is the consequence of the action of foreigners. Does 'T.W.' not know this? If he knows it but ignores its force, we may call him unkind, which we regret to do.

Relative positions of government and people.

At all events 'T.W.' has accurately stated the circumstances of our country, and his comments upon existing abuses are very near to the truth; though it cannot be said that the remedies he proposes are perfect. For example, he says what the people might do for themselves they are not inclined to do for the government which they regard rather as servants regard a master than as a family regards its chief, that their patriotism does not lead them to consider the affairs of the government as their own affairs, and they view the present financial crisis as something above or beyond their concern except as sufferers. On these points there is no doubt 'T.W.' rightly comprehends the feelings of our people. But why does he ignore the causes which have brought about this condition of the people? We assert that one great cause of the difficulty in which the government are now placed is the absence in the people of that patriotism which leads them to regard the affairs of the government as their own affairs: and if this be admitted a plan for removing the popular apathy must be sought before seeking other remedies for the disease. If this cause be removed every symptom of the disease will disappear, and a cure will be effected. Why does not 'T.W.' suggest an expedient calculated to remove this cause? We much regret to find he does not. Alas! 'T.W.', thinks that this want of patriotism among our people is the consequence of the present *system* of government. In those countries where the people are excluded from political rights it is not strange to see them display a want of interest, an apathy, towards their government. All people living under absolute governments are in the same state as the Japanese are this day. Therefore, if 'T.W.' is earnest and sincere, let him impress upon our government the expediency of granting to the people their just political rights, and upon his own government the necessity for revision of the treaties. If he does this we will willingly follow him; but now, in a letter which is partly right, partly wrong, and imperfect as a whole, he fails to confer any benefit on this country.

Where people excluded from political rights there is always apathy.

"Our duty has compelled us to make these comments on 'T.W.'s' letter; and we conclude by thanking

him for his sincerity and the regard he evinces towards our country."

Japan Gazette, July 14, 1881.

We have followed with unusual interest our contemporary's comments on "T.W.'s" letter in *The Economist* of April 23rd. There is an earnestness of tone and evident soundness of purpose in the criticisms of the *Nichi Nichi Shinbun*, which command respect and deserve the most impartial consideration. The concluding paragraph is an appeal that cannot pass unheeded. Japanese little know the deep feeling of sympathy entertained by all foreigners who govern themselves towards the educated classes of this country, who are denied the exercise of the most elementary political rights. Men who belong to constitutional nations regard their political franchise as a possession without which all freedom of action and thought would be at an end, and life no longer worth living; and they look on with feelings of infinite regret that the government of this country, however able they are as an administrative and executive body, have not yet discovered that their true strength, and surest remedy for all difficulties, lies in a council of the people; those responsible men whose labour is the foundation and support of the empire. When M. Valouieff, on behalf of the late Czar of Russia, propounded certain questions to the Russian nobles with a view to obtaining their advice and assistance in the extrication of the empire from the difficulties in which it was involved, the nobles, with true dignity, replied, that they could only consent to act or advise by and with the authority of a national representative assembly chosen from all classes and from all parts of the empire. This excellent advice was unheeded, and what is the consequence? Disguise the fact as we may it stands before the world in all its hideous nakedness. Autocracy still reigns, but over what? A poverty-stricken and oppressed people; over anarchy and murder: the throne tottering; the very empire verging upon destruction. Had the advice been taken, and the insidious council disregarded of those whose only argument against national representation is the monstrous theory, self-contradictory, that the people

Comments of the Japan Gazette on the aspirations for representative government contained in the article from the Nichi Nichi Shinbun.

are not fitted to represent themselves, the splendour of the absolute rule of the Romanoffs, sadly tarnished now, would have given place to the substantial fabric of a constitution resting upon the love of the people. Those concessions which could have been voluntarily, gracefully, and gradually made years ago must now be made perforce to appease the Demon of Discord to whom a burdened people are compelled to turn for relief as to their only friend.

Let us not be misunderstood. While we condemn absolute and personal government we do not advocate nihilism. A plague on all their houses, we cry; but no man who has the least self-respect can ever tolerate the government of the few who have, metaphorically speaking, seized or usurped the power which they employ to prevent the great body of the people from exercising their undeniable right of national representation.

'T.W.' reply.

To THE comments of the *Nichi Nichi Shinbun*, contained in the preceding pages, 'T.W.' thus replied :—

Nichi Nichi Shinbun, August 8, 1881.

To the editor of the *Nichi Nichi Shinbun*.

Errors in inference of the *Nichi Nichi Shinbun*.

SIR:—I have read with much interest the remarks you have recently published upon one of my letters to the London *Economist*, and am induced by your wish to have the discussion continued, and by your courteous manner, to ask you now to allow me to point out certain errors into which you have been led by the date of the republication of my letters in Japan.

Letters criticised were written last year.

First.—These letters were written last year, about the time when the government tried to check the depreciation of kinsatsu by selling silver from its reserves, and before it was known that this imprudent policy had been abandoned.

Position of affairs then.

Second.—They were written long before it was determined to discontinue commercial and industrial enterprise on government account, and before the bureau of agriculture and commerce was established.

Object of the letters.

Third.—They were not intended for publication in Japan, nor for the purpose of criticising the government or of offering advice to the people of this country; but

only to furnish foreign capitalists with information which might be useful in case the new loan, then spoken of, should be put on the market.

If you will consider these facts you will see that some of your remarks, implying that my suggestions were untimely, superfluous, or officious, are not quite just.

This explanation being personal, is of little consequence to your readers; but it is necessary to make in order that such value as my views may be thought to possess should not be diminished by erroneous ideas respecting their purpose or date.

1.—You say that government expenditures for the promotion of trade and production had no connection with the depreciation of the currency. But if you will reflect that these expenditures assisted to exhaust the treasury, and caused some millions of kinsatsu to be put into circulation, you will see that they could not have been without influence.

Connection between government expenditure and depreciation of the currency. Government trading.

If this method of wasting the revenue on unprofitable or injurious trading or manufacturing establishments, or in assisting a few favoured individuals at the public cost, has now really been abandoned, the people of Japan are much to be congratulated.

There are certain things even of a commercial nature which can be better and more advantageously done by the government than by private persons; but the number of such things is very limited, and the limit can not be passed, even in Japan, without direct wrong to the people.

2.—With regard to a foreign loan you seem to overlook the fact that I deprecated such a remedy for the currency difficulty, maintaining that an existing debt to the Japanese people such as the paper currency represents, was preferable to a debt to foreigners. But as to a foreign loan for useful public works, the construction of which by means of native capital only is hardly possible, the case is entirely different, and with your permission I will make this clear in another letter. Meantime, as you say that the idea of such a loan has been considered and renounced, I will only remark that in my opinion, such a decision is unfortunate for the people of this country, who appear to be greatly in need of facilities which certain public works would give them yet quite unable to supply the capital required for such works.

The objects for which a foreign loan was recommended.

If a loan is impracticable taxation is inevitable.

3.—You agree with me that the right remedy for the defects of the currency is to increase the metallic reserve. But you object to having that reserve increased by means of additional taxation. How, then, is it to be increased? If the government may not trade nor manufacture, it must either borrow or tax. But borrowing from foreigners being objectionable, while borrowing from Japanese is apparently impracticable, the only remaining resource is taxation. You will no doubt insist that economy in expenditure and larger customs duties will allow of some accumulation in the treasury.

No prospect of more economical administration.

But as to the former the budget shows that there is no prospect of any economy. The estimated expenditure just balances the revenue, yen 59,933,507 on one side, and yen 59,933,507 on the other. And though some saving may be effected under the head of "Creation of Industries etc." through the new policy you mention, yet in the other items there is a natural and steady growth which will more than absorb all such savings.

Cost of army and navy and departments.

The last budget shows that the sum of yen 46,102,818 was required last year for the army, the navy and the pay of government officials throughout the empire. This is nearly 80 per cent. of the whole annual expenditure. Economies in other items would, therefore, be of little avail if this item is to increase. Yet it is quite clear that it does increase and that it must continue to do so. The government is obliged to maintain its forces and its officers. It can not safely reduce them. What a popular government might do in this way to save expense, a despotic government dare not do. For if it be not always alert and ready it risks such a fate as recently befell the empire in France. But government *employés* require food and clothing like other men, and when the price of everything is rising, their pay and the materials which government needs, must rise also. Such being the case increase in this large item is inevitable, reduction quite impossible.

In any case increased taxation is unavoidable.

Now if expenditure steadily advances and revenue stands still, the one will soon be far behind the other. It seems necessary, therefore, to advance the revenue also, and under present arrangements this can only be done by increasing some kind of taxation. You advise augmenting the customs duties. I have no objection to that plan, and I emphatically deny that foreigners prevent your government from adopting it. Few per-

sons know this question better than I do, and I say that there are hardly any intelligent foreigners in Japan who are not entirely willing that the tariff should be revised and the import duties increased. It is true that foreigners who have expatriated themselves to do business in Japan; who have planted here costly establishments; and who have to pay the people attached to those establishments, are naturally opposed to any measures calculated to reduce or to destroy their business. But very few of them have any objections against such an increase of duties as will leave the volume of trade unhindered. For they know perfectly well that the importer only pays such taxes temporarily, and finally recovers them from the consumer. The only real interest that foreigners have in the matter is that trade should go on. But this is equally the interest of the Japanese people (who want foreign trade in order to sell their own surplus products) and of the government, which should desire to encourage that trade in order to derive the greatest possible revenue from it. Whenever the question is approached in this spirit it will be found that the foreign opposition which you speak of is far from being formidable.

As you call upon me to exert myself to have the treaties revised, I may say that I have for many years maintained that the Japanese government is fully entitled to increase the customs duties, and that my own government recognizes this right. Nor do I believe that any foreign government seriously opposes its exercise. Unhappily, however, Japan has coupled this matter of tariff revision with other matters which are much less easy of adjustment. Had this mistake not been made you might have had a tariff to your liking years ago, without any difficulty whatever.

But even if the government should collect four times the present customs duties, as you propose, the yield, upon the existing volume of trade, would be only about yen 10,000,000 a year, or yen 7,500,000 more than is now collected.

Such a sum as this would do so little towards improving the currency that it is far more likely to be applied to the growing expenditure I have mentioned. If my opinion were asked I should say it was quite certain to be used for the latter purpose only and not for the former. In any case, what are higher duties

Increased customs duties in themselves not objectionable.

The maximum increase of revenue.

Increase of revenue likely to be applied to meet growing expenditure.

on imported goods but new taxes on the Japanese consumer?

Whatever the method result is increased taxation.

How then is taxation to be increased with least hardship?

It is evident therefore that, whatever the method, the result is increased taxation of the Japanese people.

4.—This brings us to the question, how can taxation be increased with the least hardship and the utmost benefit to the people. You say increase customs duties and other indirect taxes. I say you can not greatly increase customs duties without destroying the trade which yields them and uselessly irritating those who depend on that trade. As to other indirect taxes, the budget values them all together at about yen 8,000,000 (post office omitted); of which about yen 6,000,000 is upon saké and other liquors. This is but a small sum, but probably no addition could be made to these taxes without exciting popular commotion.

Land tax.

The only other taxes are the land taxes.

Let us consider then if they can be augmented.

This is a fit source of revenue by taxation,

In your remarks you attribute to me the view that taxation in Japan had reached its maximum, and upon this error of your own you found a charge of inconsistency against me. But I did not say and do not believe that taxation has reached its maximum in Japan. What I said was that taxation was less easy for the present government than for its predecessors, but that recent good crops tended to reduce the difficulty. I cannot discover anything irrational in thus connecting taxes, which yield the national revenue, with crops, which compose the national wealth. They are closely connected in every country, and it would be very strange, and very dangerous, if they were independent of each other in Japan.

and it may be increased.

It is no doubt true that taxation is less willingly borne when the people are unrepresented in the government, and I heartily sympathise with your reasoning on this point. But that is not the present question. That question is only, can the existing government augment taxation without oppressing the people and endangering its own power. It seems to me that this question can be answered affirmatively, and I will proceed to state my reasons for thinking so.

What the land tax is.

The national land tax being $2\frac{1}{2}$ per cent. on the value of all land, and the provincial tax, which was formerly $\frac{1}{2}$ per cent., being now about $\frac{1}{10}$ per cent., the

total land tax is about $3\frac{1}{10}$ per cent. on the value. This is not a high rate of taxation in a country where much heavier taxes formerly prevailed; where the total of other taxes is small (less than one fifth of the whole revenue); where the yield of land is unusually great; and where the average rate of profit (as the average rate of interest shows) is very high. Nor do I find anything in your articles to convict me of error in this respect or to lead me to doubt a considerably larger amount might be gathered from the land tax without serious difficulty.

I favour the augmentation of this tax for the reason that it is the surest, simplest, and most equitable form of taxation which can be devised. It is sure because land is a fixed thing. It is simple because owners of land can be easily found and the value of land easily ascertained. It is equitable because every one is taxed in proportion to the extent or value of the land he occupies or which supports him. Those who hire land from others pay their tax in the form of rent to the land owner who pays the government. Even the beggar who lives on the public road pays part of this tax in the price of his food. No one wholly escapes. The rich or luxurious man occupying extensive or valuable ground pays a large sum. The poor man pays but a little. But every one contributes according to his wealth. There is no other tax so equitable, provided it be fairly levied according to the value of the land.

Reasons why
land should be
taxed in pre-
ference to other
things.

You intimate, however, as regards this tax, the farmers are unjustly treated. What I hear on all sides is that, in general, farmers have been very fortunate of late, first in gathering large crops and second in getting high prices. If that be so they ought to bear cheerfully their full share of the taxes necessary to the government. But it is possible that what you suggest has some foundation in fact.

Treatment of
farmers.

For, according to the budget, rice land, arable land, and rural building land, pay 40,836,927 out of the 41,901,441 yen of total land tax, while city lands pay only 804,594 yen, or less than 2 per cent. of the whole. This sum capitalized at the rate of 3.7 per cent. would give a total of less than 22 millions of yen as the value of all the urban lands in Japan, which is certainly a very small sum. I should suppose that the land of either Tokio or Osaka alone would be worth more than

Apparent
inequality of
taxation.

yen 22 millions. It may be therefore that a full and impartial valuation of town lands would add very considerably to the product of the national land tax without troubling the farmers. But on this matter I can not of course form any accurate judgment, and should like to see it fully discussed in your journal.

Capacity of farmers unquestionable; but much remains to be done.

Agricultural production may be largely augmented.

5.—You do me much injustice in supposing that I meant to disparage the farmers of Japan, or to compare them with “roving tribes.” No one admires the beauty of their fields of the careful excellence of their culture more than I do. But I find it impossible to agree with you that “the agricultural resources of Japan are so developed that little remains to be done.”

It is the judgment of every observer who has written on this subject that agricultural production in Japan might easily be augmented very largely, and when I read that only about one seventh of the soil is cultivated, I must conclude that these observers are correct. What I myself see is that, with a particularly fertile country yielding many exceptionally valuable products, the 35 millions of people in Japan have less than yen 80 millions of surplus products each year to sell to foreigners, whereas the cold northern country of Sweden (including Norway) with a population of only 6 millions, exports annually nearly 90 millions of yen in value. That is to say, the surplus products of fertile Japan amount to less than one yen per year for each individual, while the surplus products per year of sterile Sweden amount to 15 yen for each individual. These figures speak for themselves and prove to me that the industrial development of Japan is very incomplete and that it might be stimulated with advantage.

What other countries smaller than Japan can do:

It may be interesting in this connection to lay before your readers the following comparisons, drawn from official statistics for the year 1876.

Reduced to Silver yen or Dollars.

	Population.	Exports.	Imports.
Japan	33,623,379	27,711,527	23,964,678
Sweden and Norway ...	6,351,402	88,101,000	117,883,000
Netherlands.....	3,924,792	197,800,000	266,000,000
Belgium	5,336,185	213,000,000	290,000,000

It will be observed that all these European countries "Adverse enjoy what is called in Japan an "adverse balance of balance of trade," but there is no sign of any of them being ruined by it. On the contrary, up to late dates, they were all remarkably prosperous countries, and very well satisfied with the condition of their trade."

Now there are only two or three ways by which a government can effectively stimulate the industry of the people. One is to provide facilities for transportation of products to market. Another is to bestow honours and distinctions on those who excel in industry. A third is to apply the spur of taxation. And this last is the most efficient of all. For the people may lazily neglect to use the roads provided, and they may be indifferent to rank and rewards, but they cannot disregard the collector of taxes. If, for example, the owners of the land now lying uncultivated all over Japan were compelled to pay taxes on those lands under penalty of having them sold to others, do you suppose they would let them lie unproductive as at present?

As my letter is so long, I can but touch on this topic, but I think you will see that it offers a vast field for investigation.

6.—You rightly imply that to increase the efficiency, that is, the productiveness of labour, an increase of capital is necessary. Nothing is more true, than that capital is as essential to labour as tools are to a carpenter. Neither can accomplish much without the other. And it is evident enough that capital available for the assistance of industry is scarce in Japan. If it were abundant we should not see so many proposers of new undertakings running first to the government for the money required to begin them. It is clear that those gentlemen, who must know very well the true state of things, believe that the only enterprising capitalist in the country is the Okurasho. Now, as the Okurasho has resolved hereafter to devote its funds exclusively to government affairs, capital for such private business must be sought elsewhere. Where is it to be obtained? Those "patriots" who now wish to drive foreign capital away from Japan, instead of encouraging it to come and to remain here, ought to furnish an answer to this question.

7.—But increased production will be of little avail to Japan without increased facilities of transportation Increased pro-
duction of little

avail without
increased
facilities of
transport.

to ready markets. You say that this remedy is being applied and I admit that through the establishment of the Mitsu Bishi Company (which has done great service to the trade of Japan, besides having saved the government during the Satsuma rebellion) and through the construction of railways and other roads something is being done in this direction. Still, this work goes on very slowly, and it also requires a good deal of capital. I read that the people are being urged to supply the capital needed for it, but it seems very doubtful if they can do so without withdrawing from ordinary industry the capital equally needed in that department. And it appears to me that it would be infinitely better for the country if all the roads, like the telegraphs and post office, were made, maintained, and controlled by the government.

Exertion the
only true
remedy for
apathy. Indus-
trial apathy a
greater evil
than political
apathy.

8.—I have endeavoured in the foregoing remarks to respond in some measure to your call for suggestions as to means of removing popular apathy in Japan, and shall feel pleased if you find what I have written of any value in that way. I think that *exertion* is the only true remedy for apathy, and that industrial apathy is a greater evil just now in Japan than political apathy. The present system of government seems, on the whole, to suit the Japanese people, and I think any great change, under existing circumstances, might yield more evils than advantages. At all events it would be presumptuous in me to offer any advice in that matter. You are yourself of the liberal party. Yet you evidently fear that railways and other measures for the increase of production and trade, may involve some political changes and troubles. I do not in the least share your apprehensions; but that you can entertain such apprehensions is a reason why I should not complicate clear and simple propositions about industrial affairs with difficult discussions about political matters. My conviction is that if the Japanese people will attend for the present carefully and wisely to the former, their political needs will in due time be happily adjusted,

I am, Sir,

Very respectfully yours,

T. W.

Yokohama, July 1881.

CHAPTER VII.

THIS chapter will contain a few occasional articles treating of some of the more prominent expedients had recourse to to stimulate the currency, and restore a portion of its value. None of the schemes here dealt with have had the effect they were supposed to exert; and may now be regarded virtually as failures.

SPECIE BONDS FOR PAPER CURRENCY.

Japan Gazette, October 30, 1880.

A notification signed by his excellency Sanjo Sane-yoshi, dated October 27, 1880, has been published, setting forth the regulations for the issue of bonds in return for kinsatsu.

The substance of this notification is :—

1.—Government bonds, repayable in gold or silver at the option of the issuers, will be granted on application in exchange for kinsatsu at par.

2.—The amounts of the bonds will be 50, 100 and 500 yen; and the holders' names will be registered.

3.—Any person can procure these bonds except foreigners.

4.—Kinsatsu received for these bonds will be destroyed at the Okurasho in accordance with the rule.

5.—The principal sum of the bonds will remain unpaid for three years; but within twelve years subsequently they will be redeemed by annual drawings in quantities convenient to the government. Interest at the rate of six per cent. per annum will be paid twice yearly, in May and November, in specie.

The notification contains several other clauses relating to form of application, &c., &c., of no consequence here.

This is another of those abortive schemes for restoring the credit of government paper, so many of which have lately been tried; and bears upon its face sufficient cause for grave suspicion as to the *bona fide* of the government. In the first place, the scale of depreciation of currency is so great, that not even the most conscientious debtor would consent to issue bonds in exchange at par repayable within fifteen years.

Bonds for
currency.

Issued at par.

Value.

No foreigner
can hold them.

Proceeds will be
burnt.

Redemption.

Scheme evident-
ly abortive.

The extent of
the debtors'
liability for
these bonds.

Hesitation to
take advantage
of the rich offer.

The financial
situation must
grow worse as
time progresses.

Different results
of this operation
and a specie
loan.

value one thousand yen, may be taken to illustrate the ratio of liability the government propose to incur. An investor can purchase 1,000 yen kinsatsu to-day for \$555.55. The bonds, if drawn in the third year, will return, in *gold or silver money*, 1,180 yen; equivalent to a profit or bonus of \$625.45, or 37.4 per cent. per annum on the original outlay. This is so excellent a return that the people should rush to take advantage of the notification; but to do so those who do not hold kinsatsu would be compelled to invest their specie in its purchase; and we have no hesitation in declaring, from our knowledge of the opinions of the people in regard to this undertaking, that not one can be found to invest five or six hundred silver yen in hard money for the glittering bait held out to them.

Bad as the financial situation now is, it will be much worse in three years, if it can drag on during the interval. There are no signs of financial reform; on the contrary, the position is daily made graver by acts of great imprudence. What prospect, then, can be said to exist in three years time of even payment of interest, much less of principal, in specie? What guaranty do the government offer of their ability to carry out the terms of their engagement? The premium they offer would startle the most profligate and reckless borrower, with whom repayment is but a possibility of the remote and indefinite future. A specie loan may be relied upon; but if so, it had far better be made now, as is proved by contrasting the two operations. A specie loan of 20,000,000 dollars would enable the government to take up some 35,000,000 of kinsatsu, by judiciously conducted operations for real value. The burden to the nation would be about 1,200,000 dollars for interest, and as much as it could afford for amortization. The bond system would involve the nation in a liability, three years hence, of twenty millions of silver yen, for the redemption of paper which only cost the bondholders some eleven millions of specie, the interest being the same, namely, 1,200,000 silver dollars, as in the previous case. The distinction between the two operations is, that the bond system can only redeem twenty millions of paper, and the loan system about seventy-five per cent. more, the latter putting into actual circulation twenty million dollars, and the former eleven millions or less, in proportion to the purchase of

satsu by investors or the investment of satsu by holders who can do nothing else with money which is practically worthless.

No man of business can believe in the inducements offered by this bond system. The government are really too kind; but, unfortunately, they have over-reached themselves for no honest person seriously intending to redeem his liabilities, would make so tempting and yet impracticable a proposal as that now put forward. The whole proposition sparkles, not with gold and silver in three years' time, but with impossibility of execution.

The scheme seems to be impracticable.

THE CENTRAL BANK.

Japan Gazette, December 3, 1881.

The establishment of the Rengo Kiito Niadzukarisho was generally believed to be part of an attempt to supply the treasury with the specie absolutely necessary to prevent national discredit. The government require annually at least six to seven millions of silver for use abroad; and the incoming does not exceed two and one half millions derived from customs duties. That portion of the balance of the current cash account, erroneously styled "reserve fund," consisting of specie is reduced to a mere nominal sum; and the finance department cannot acquire more specie on the market by purchase, for, apart from the ruinous depreciation which would follow the appearance of the treasury as a seller of government paper, there are no purchasers at any rate of exchange for any sum beyond the amounts which daily change hands for the mutual convenience of traders.

Necessity of government for specie: how it is obtained. Object of the silk combination.

This situation has been contemplated for some years past, and the approach of a crisis would be hailed with satisfaction as a means of relief, and for the prospect it would hold out of the adoption of a sounder financial policy. Yet another attempt is to be made to carry out in a different manner the primary object of the silk combination, which clearly was to acquire the producers' property for paper currency and to convert that property into specie for the use either of the few monopolists or of the treasury. This is a fair inference from the published rules of the association, which provided for advances in paper against silk sent in for sale; the realisation of the specie proceeds of sales into paper;

Another attempt to complete the object of the silk combination.

Definition of the *raison d'être* of the silk combination.

and the payment of the balance to the producer also in paper, the specie itself going to the government coffers for export or into the pockets of the interested owners of the Rengo. This attempt, however, temporarily failed; and the project which was to provide some indispensable specie also came to a sudden end. The government, the public have been assured, had no connection whatever with the Rengo. It was a purely private and independent undertaking; and the promoters only were to absorb the specie wherewith to "rig" the exchange market at their sovereign will and pleasure. How many Japanese or foreigners accepted this denial in the sense in which it was meant was a problem unanswerable, and would have remained so had not a new and more palpable attempt been made to attain the very object the Rengo failed to achieve.

Indifference of the government or their advisers to public opinion.

Whoever the financial advisers of the government may be, they must be singularly blind to and indifferent of public opinion; or, perhaps, they consider their really shallow artifices too deep to be seen through by the people upon whom they are imposed. If this were not the case the establishment of the new Central Bank (the very title is suspicious) would not have been made public as has been done in the *Mai Nichi Shinbun*, with those particulars of its constitution which challenge instant attention. This bank or financial association is to enjoy a capital of 20,000,000 yen, 15,000,000 of which is to be advanced directly by the treasury; while the remaining 5,000,000 will consist of the refund of advances made by the government to the Specie and Second National banks.

The capital will be government funds; the state is to become a banker.

The whole of the capital will, therefore, be government money; and the state is to become a banker. The capital being wholly in paper the object of the undertaking is not clear, for, although there are to be six branches (not agencies) in Yokohama, Kobe, London, Paris, New York, and San Francisco, it can scarcely be expected that remittances of paper money to any of these branches will answer the purposes of the government or the business of banking. There is, so the promoters of this affair declare, a necessity for a Japanese bank to assist Japanese merchants to recover their commercial rights; and to assist direct exportation in order that the native should earn for himself those rich profits which now all fall into the hands of

foreigners. "Direct trade," a term unknown in any other country, is perfectly legitimate; and so long as it is fairly conducted no complaint will be made: on the contrary, no one would have demurred if the silly "threat" held out in the *Japan Mail* of shipping silk to Europe during the existence of the monopoly had been carried into effect, in which case the producers would have had the losses and experience, foreign countries the silk, and the government the specie proceeds. Direct trade, in essentially Japanese hands here and abroad, can only be carried on by means of Japanese banks, for foreign banks "like not the security;" or they lend themselves to the plot to deprive Japanese of this "banking right." To supply this want, the Central Bank has been formed. When the price offered by foreign shippers for any description of produce is below the market holders may ship on their own account, and receive advances (in paper) from the Central Bank on an invoice which takes the market price as a basis. The proceeds of sales will, of course, be applied to the draft against the shipment, and the balance will be accounted for here by or to the bank in Tokio. For the satisfaction of those who may be puzzled to understand how the appropriation of the proceeds by the government could be carried on without diminishing the capital here in proportion, the following hypothetical case will serve as an illustration. B, a foreign merchant, offers A, a Japanese broker, \$600 per bale for 100 bales of silk: A asks \$650, which is refused. A then ships direct, drawing upon C, the bank, for \$65,000 at 170 = yen 110,500. The silk is sold in London for (evading the complication involved in a loss) say, \$70,000 at 175 = 122,500 yen. The treasury having appropriated the specie abroad at once marks off a payment of 122,500 yen of foreign liability, and hands that sum to C, who accounts to A for 12,000 yen surplus proceeds. Irrespective of the price the silk may realise abroad the government will receive all the specie, which will be paid directly into their own bank; and the consequence will be that little if any will return to this country, and certainly none of it will re-enter circulation. The influence of this direct government trading upon commerce generally will be visible in a few months. Silk and tea are the chief products employed by Japanese to barter away for those imports

Connection of
the Central
Bank with
direct trade.

The effect upon
trade.

which are indispensable; they have always maintained a certain saleable value. Under the new conditions, producers who draw through the Central Bank, instead of selling here or shipping direct through private hands with advances in specie, will find themselves deprived of articles which are really money and provided with a sham substitute which is not money: the import trade will suffer accordingly: for every thousand dollars received by the Central Bank under these conditions, a diminution to the same extent will take place in importation, until the ambitious aspirations of certain deluded political economists are realised in a favourable "balance of trade"—all exports and no imports.

The danger of this scheme.

We shall revert to this subject from time to time. Every thinking man must be struck with this new element of danger to the future of Japanese trade, and we mistake the government if, when the current of public opinion becomes known, they do not discard a projected undertaking which no honest man can recommend. Experience will make even fools wise; and we are entirely mistaken in our estimate of Japanese acuteness if native merchants can be deceived by this seemingly specious and empirical scheme, which is one of a number of others which seem to be preferred to sound and healthy reform without regard to the inevitable and disastrous consequences.

HOW DO THE GOVERNMENT SUPPLY THEIR SPECIE REQUIREMENTS ABROAD?

Japan Gazette, September 10, 1881.

Government remittances to Europe usually followed by decline in currency.

People have been waiting for the government's necessary remittances to Europe to cover their expenditure abroad, in expectation of seeing a sudden and serious decline in the present nominal value of paper currency; and the other day it was noticed in the journals that two of the principal ministers of state had visited a celebrated foreign financier, for the purpose of arranging a scheme for the improvement of kinsatsu. If this scheme is to be carried out without a foreign loan that, is to say, without coin, the celebrated foreign financier alluded to ought to have lived eighteen hundred and odd years ago, during the period of miracles. If, how-

ever, the improvement in the condition of satsu or the prevention of further depreciation, is to be carried out without the aid of coin, it will have to be carried out by obtaining from the nation its saleable commodities for paper, and converting such saleable commodities into bullion in different parts of Europe and America; which bullion will have to be sent to London to the agent of the government there; in other words, bullion will be purchased by the government for kinsatsu in London instead of in Yokohama. Whatever the process may be, we have only to regard the result, which is, that the government, by this means, seek to obtain the bullion they require in exchange for the only currency they can disburse—paper. Operations like these will not only be unjust to the country but ruinous to the currency.

Bullion is to be purchased abroad instead of here, but by the same means.

People are speculating whether the action of the Specie Bank in April and May last was due to the advice of the celebrated foreign financier. The action of the Specie Bank now alluded to, and which we have learned from public rumour, was to send emissaries into the principal silk districts, to offer advances of money in paper to assist silk traders to a larger capital than they originally possessed for the production of silk and the purchase of cocoons. It is said that a very large number of Japanese reelers in the interior jumped at the offer, especially as the amount of interest was put at a very low rate, say about one half per cent. per month. Now it is well known that Japanese of all classes are very ready borrowers, and it is not to be wondered at that offers of money at a low rate of interest should be eagerly accepted. But, after the loans had been accepted, came certain conditions attached to the promissory notes or receipts; and among these conditions, they say, are some very stringent clauses imposed upon the borrower; such as, first, that all silk produced must be sent abroad on account of the producer through some of the recently established direct-trading companies or *sho-kwai*; that the proceeds, deducting charges, would have to be paid over to the government agent in London, and that the producer here would be credited in account with the result of the sale, in paper currency. Second, that upon the recognized shipment abroad of the produce, a further advance would be made of 80 per cent. of its

Action of the Specie Bank.

Japanese are ready borrowers.

Conditions of the loans.

Interference of
the conditions
with indepen-
dent action.

value, also in paper. Thus the producer and borrower is bound to ship all he produces through the medium of the lender or his agents, until the original loan is recovered by the Specie Bank through the instalments of 20 per cent. on the value of each shipment; or by a balance of return from the selling markets. By the stipulation of the Specie Bank that the produce must be sent through one of the established trading companies, and not through any of the native merchants of Yokohama, it is to be presumed that the Specie Bank desires its lien upon all produce shall be entrusted to Japanese agents residing abroad, and not to foreign firms of standing or reputation. Thus, the trading companies are not allowed to be independent merchants acting in accordance with their judgment for the benefit of their constituents, but all their operations seem to be controlled by the government, possibly in order to force shipments into the hands of the government's special agents, who are attached as commercial branches to the Specie Bank; or to one or two of their foreign favourites who are frequently allowed to send forward quantities of silk on Japanese account. Whether these measures are taken for the purpose of securing its lien, or to disguise the real character of the transactions, is a subject for speculation.

This method
of procuring
specie is not
new.

This method of laying down money in London is but a variation of the process which was exposed some four years ago. Then, according to H. E. Okuma's own avowal, to avoid drawing upon the "reserve fund," rice was purchased in the interior and shipped on government account for conversion into bullion to be used in London for government purposes. These transactions were then on government account solely; and the government then formed the only direct-trading company of Japan: an attitude which gave rise to so much adverse criticism that the policy was abandoned, to be recommenced in this new and disguised form. To-day, the government do not appear to be directly interested in any of the produce forwarded, and are in a position to say to the world,—“Our people want to trade in this manner, and we are simply assisting them.” They do not add that which appears to be the truth, namely,—“We have tempted the people to accept our money at a low interest, with subsequent conditions so onerous that in a short time they must be

impoverished for our gain, or for our immediate credit.”]

It is almost unnecessary to remind foreign readers that transactions of this kind are radically unsound in principle, and disastrous in their consequences. Many of our Japanese friends do not, however, recognize the danger of continuing this commercial policy, and we may therefore point out to them that exports which yield no returns, either in money or commodities, must drain the nation of its resources and rob the labourer to enable the government to purchase bullion in London for their requirements with kinsatsu at a better rate than they can in Japan by the same means. If the government were to attempt to purchase bullion in the open ports for remittance to London, the large quantities required would cause the value of their paper to speedily fall below 200, without, be it understood, in any way increasing the quantity in circulation under their present arrangements. The people, therefore, are deceived with regard to the value of the paper for the time, by this trick or scheme to obtain bullion abroad by disguised means, which would be readily seen through if the people would only reflect upon what must be the consequence of a continuation of such transactions; and upon the fact that they are parting with the fruits of their industry for nothing beyond government notes which are absolutely irredeemable.

As the value of fiat paper must in a large measure depend upon the metallic reserve at its back, reference is here made to an episode in the history of Japanese currency. In August 1879, H. E. Okuma, the then finance minister, issued private invitations to a few resident merchants and bankers to visit the finance department, and in the course of that visit opportunity was found to show boxes, &c., said to contain specie of the value of 20,000,000 yen, while statements were made to the effect that above 10,000,000 more was lying in the mint at Osaka. Members of the press were not invited on this occasion, consequently all the statements subsequently published were made on purely hearsay evidence.

THE METALLIC RESERVE.

Japan Gazette, September 13, 1879.

A party of foreigners invited to visit the Insetsu-kioku.

In response to a courteous invitation issued by his excellency the finance minister, a select party of foreign merchants paid a visit to the *Insetsu-kioku* on Saturday, the 30th August. During the visit the working of the department was explained and much valuable information in relation to the system of control of the national finances was given by his excellency and the officers of the *Okurasho*. The party subsequently proceeded to the treasury vaults where they were shown several boxes containing gold and silver yen, after which they were entertained at luncheon by his excellency Okuma.

The observations of the visitors were intended to be made public.

We should not have ventured to do more than record an act of polite hospitality on the part of a distinguished member of the imperial government, had not a Japanese organ sought to invest it with an official character; but as we are told by the *Japan Mail* that notwithstanding the entertainment provided by Mr. Okuma was an act of unofficial courtesy, and ostensibly of a private nature, "it has since been understood that the information acquired was for communication without breach of confidence; in fact, it can hardly be doubted it was the express wish of the finance minister that the personal observations of his guests should be made public," we may approach the subject without hesitation, surmising that all the statements made by our contemporaries are based upon nothing more trustworthy than hearsay, for no member of the foreign press was invited to be present.

Confidence in the alleged large reserve of specie was not generally entertained.

The finance minister has had many opportunities, but has neglected to officially declare the sum of specie.

The easy confidence with which the *Japan Mail* jumps to conclusions concerning the amount of specie contained in the treasury, is not, unhappily, felt by large majorities of the native and foreign communities. If a minister of the high rank of his excellency Okuma omits, innocently or from design, to declare, for the information of his colleagues and the nation, the quantity of metallic reserve in his hands when the annual financial statements are published, we, in common with all those who have formed an accurate estimate of the dignity of a finance minister's office, find it impossible to believe that his excellency could

stoop to so questionable a measure as to endeavour to persuade others to publish their belief in the existence of that which he himself has persistently declined or neglected to declare, though urgent and frequent appeals have been made to him to do so. It is, however, evident that several foreign merchants were invited with some ulterior motive, and the *Japan Mail* uses this circumstance as an excuse for stating that the treasury contains twenty million yen; that at Osaka there are ten millions more, and at the government mines in the interior there is a further quantity of specie. "The metallic reserve, therefore, held by the finance department on the 30th August was, in round figures, of the value of thirty millions of yen. Such a statement is highly satisfactory and will command credence without the knowledge that several foreigners had the opportunity of seeing some of the boxes in which the treasure was packed." May we ask who vouches for this "semi-official" statement? Does the finance minister, or do the gentlemen whom he invited: or do any of them possess the courage of their opinions in sufficient degree to come forward and satisfy the public upon those points which chiefly interest them, namely, that the specie seen really amounted to 20,000,000 yen; that satisfactory proof of the possession of 10,000,000 more was afforded them, and the nature of that proof; that the money was a surplus or reserve fund and not a mere balance of a cash account; and, finally, that this specie belonged wholly to the government.

20,000,000 in the treasury; 10,000,000 more at Osaka; further quantities in the interior:

The *Mail's* comment thereon.

What support is there of these assertions? The proof required."

So much stress has been laid upon the care bestowed upon the preparation of the financial statements that when these documents are published we are bound to receive them with respect and treat them with proper consideration. The laudatory commendations of the foreign system of account keeping adopted by the *Okurasho* have never been indulged in by us simply because, as accounts, the budgets grow each year more unintelligible owing to the existence of a species of "suspense" account described as the reserve fund. Of the elastic nature of this remarkable account our readers can judge for themselves after glancing at the few figures following. In the financial statement published on the 20th April, 1875, the reserve fund is given in minute detail and the total is set out as 22,074,865 yen,

The annual financial statements.

Of The elastic nature of the reserve fund.

Sudden increase
in the sum of
reserve.

Explanations
of this large
increase are
necessary.

inclusive of 9,000,000 yen appropriated from the year's income. For the fiscal year ending June, 1876, there is the published statement of actual income and expenditure which must form the starting point in any examination of the reserve fund. It is there set out that in the beginning of the year (July 1st, 1875), the reserve fund was 24,416,257 yen, or about 2,350,000 yen more than the estimate quoted above. To attempt to ascertain from what sources the increase sprung would be time wasted, because the finance minister declared the accurate sum to be 28,351,415 yen at the end of the year. The estimates for 1877 show a sudden increase to 39,031,538, accounted for to Mr. Mounsey by the *Okura-kio* announcing the discovery of discrepancies of nearly 11,000,000 yen in previous accounts. In 1878 the reserve fund had grown to 51,266,981 yen "by the transfer thereto of the revenues of the eighth (1875) and previous years," and on the 1st July, 1879, the amount was 50,898,871 yen: all these figures are exclusive of capital laid out on government trading undertakings, and advances made to the Mitsu Bishi Company and others. There is, therefore, an increase between July 1st, 1876, and 1879, a period of three years, of no less a sum than 22,557,455 yen equivalent to a mean annual saving of 7,500,000 yen or one-seventh of the gross income, a wonderful result when we consider the events of 1877, and the pathetic appeals of the minister to his colleagues to practice the strictest economy. Of this large increase we submit, with great deference, the system of book-keeping ought to but does not afford any sufficient explanation. It cannot be ascribed to surplus revenue because the balances of 1876 and 1877 have been applied towards the redemption of paper money, as explained in the last budget, so that there is positively nothing to support the figures which represent the reserve fund. It is a mysterious account which defies all investigation. The estimates are evidently carefully drawn up, and the actual results of 1875, the year of largest income, show that no material saving can be effected (the surplus of that year was 279,434 yen) by means of which the reserve fund can be added to. The question of what the reserve fund really amounts to and how it is made up is one that the finance minister alone can explain—his published statements throw no light whatever upon it.

Reverting to the visit of foreign residents to the *Insetsu-kioku* the finance minister's object was, apparently, to lead the public to believe the metallic reserves to be equal to sixty per cent. of this inexplicable "reserve fund." Whatever opinion may have been formed as to the actual existence of this sum in specie it was not, and could not possibly be verified by the visitors; consequently the assertions made by the *Japan Mail*, which ventures to speak positively upon a matter regarding which the finance minister himself is silent, are at least premature and untenable. Let us examine the matter a little more carefully than our contemporary has done, and for that purpose be content to quote from its own columns. Mr. Mayet's paper on the national debt contains a vast amount of information compiled from sources which must have been satisfactory, or so keen a statistician as he is would not have relied upon them. After exhaustively treating the subject of money he deals with specie. The additions printed in italics are our own.

The object of the visit was really to lead the public to believe specie formed 60 per cent. of the "reserve fund."

Evidence strongly opposed to the belief.

Total coinage of gold and silver to 30th	
June, 1878	78,813,837 yen.
<i>Coinied for year ending 30th June, say</i> ...	4,000,000 "
	<hr/> 82,813,837 yen.

Exported 1872 to 30th June,	
1878	43,876,110
<i>Exported for year ending 30th</i>	
<i>June, 1879</i>	8,261,151 ⁽³⁰⁾
Industrial purposes & losses.	3,000,000
	<hr/> 55,137,261 "
Balance	27,676,576 yen.

The position, according to Mr. Mayet, was that in June last year there was a balance of 32,000,000 yen in coin. The continuation of his figures proves the present position to be 4,261,151 yen worse. That Mr. Mayet's figures are to be relied upon we have partly our own belief, and partly the declaration of our contemporary to the following effect,—“Here are the opinions of no “mere shallow doctrinaire, but the deliberate conclu-

Mr. Mayet, after very careful calculation, estimates specie in circulation to be within 12,000,000 yen.

(30) These figures represent the balance, or the gross sum of precious metals exported minus the amount imported.

"sions of a mathematician, a student and a philosopher." The "deliberate conclusion" of Mr. Mayet was that the "precious metals are mostly treasured and locked up by prudent people, and so far withdrawn from circulation. I scarcely believe there are in circulation twelve millions of precious metals, both large and small coin included."

The weight of evidence and the conclusions adduced therefrom.

There is little to be gained in following this subject. The weight of evidence is against the existence of a reserve fund much larger than one-half that stated, and very heavily against the existence of thirty millions of specie in the treasury coffers. With these figures before the people it is but reasonable to ask wherefore this roundabout and underhanded attempt to influence the ignorant? Is it impossible to state an account which shall, from its clearness and accuracy, and not by its obscurity and intricacies, defy while it challenges criticism? Is the task of explaining how much has been received and how much has been expended, and the verification of the balance by comparison with the money actually in the possession of the *Okura-kio*, too difficult for the accomplished staff of that department upon whom Mr. Hennessy bestowed such lavish praise? We ask these questions in the interest of the finance minister whose reputation is involved in their solution. The fanciful difficulty of correct book-keeping affords no justification for all this mystery and concealment, elements which point conclusively to the existence of a stern necessity for a strict audit of the nation's accounts, to be made by competent persons who shall be so far actually satisfied with the result of their practical investigation as to be in a position to declare it to the world, and to answer any question which bears upon the matter. This, and not the assertions of gentlemen who have had the doubtful privilege of seeing "some of the boxes in which the treasure was packed," is the remedy his excellency the finance minister should apply to the doubts and fears which fix the utmost limit of available specie in the hands of the imperial government at six million three hundred thousand yen, a small portion of which belongs to one or more of the banks.

CURRENCY EXCHANGE.

Japan Gazette, March 11, 1882.

Fluctuations in kinsatsu are almost as frequent and severe as they were during the period immediately preceding the inauguration of the first of the many empirical schemes which have been organized and carried out for their improvement; that is, just before the notification by which two of the foreign bankers, to accommodate the Japanese government, levied a tax on all foreign exchanges by declaring their intention thenceforward to accept a Japanese silver unit coin, known to be at a discount in all parts of the world, at par with the universally accepted Mexican dollar. The vast stores of silver yen the government were to disburse, provided they could do so without loss, led to a belief, earnestly deprecated at the time, that Japanese surplus paper would be withdrawn; and that the currency as a consequence would be raised to par. Speculators operated on the strength of promises which had no foundation either real or implied, and lost heavily, for the rate for currency sprung to 109, to decline, in less than fifteen days thereafter, to 125, and from that time by slow but sure gradations to its present discount. Of the other measures which have been tried; of schemes abortive in their conception, or injurious in their dishonest working, there have been so many that reference to them separately is impossible. They may all be grouped as financial blunders discreditable to every person, native or foreigner, concerned in their origination and application.

What is the nature of the latest scheme which has had the effect of reducing the discount on currency by 5 per cent. during the last two or three days; and which has gradually raised it from 172 to 175 in the beginning of the year to 157½ on the 8th instant, is matter of curious speculation. Moderate quantities of silk have been bought lately and a round sum of specie has passed from foreigners to Japanese dealers. The latter were, however, under advances to the silk combination made during the evil days of the Rengo Kiito Niadzukarisho; and those advances have to be repaid out of the proceeds of the first sales so far as they will go. The advances were made in paper, the rate for which in September and October last was 173 to 175;

Fluctuations;
their causes;
empirical char-
acter of the so-
called remedies.

Advances in
paper and
subsequent
repayment
used as a means
for forcing
exchange
operations.

An illustration of the loss caused by paper advances and specie repayments.

and it is, of course, optional for the borrowers to repay in paper, or to hand over the specie proceeds at the rate of the day. The improvement in exchange places the debtors in an awkward position, as may be seen by taking a sum of 1,000,000 yen advanced in September last. Silk has been held on a downward market, and is now being realised, under pressure of the lenders, at prices fully 10 per cent. less than those obtainable six months ago. Thus the owner of 1,000 piculs of silk worth \$600,000 in September, compelled by the action of the Rengo Kiito Niadzukarisho to abstain from selling to foreigners unless under the rules of that combination which foreigners resolutely declined to submit to, was obliged to borrow from one of the banks (?); the Specie Bank having taken a prominent part in these transactions, and the Specie Bank being, as every one knows, a government institution. The advance of 1,000,000 yen was worth when made 571,000 in silver; the interest being at the rate of 15 per cent. per annum. Forced now to realise his silk and repay the advances, the holder has first to sacrifice \$60,000 at least for decline in price; secondly, to refund 1,075,000 yen at 158. This he cannot do, for the specie required to purchase the paper is \$680,000, instead of about \$615,000 had the rate of exchange been left without interference. He therefore loses by the transaction \$140,000, or at the rate of the day 221,200 yen currency; the difference between the sum for which he could have sold his silk six months previously, and the price at which it was sold, with the interest and difference of exchange, but without charges for storage, &c., all of which are extra.

Interest is not the sole consideration for advances.

All this may seem beside the question of the rise in the rate of exchange; yet in reality it is most intimately connected with it. How would the lenders profit if it were not for a little difference in exchange? Interest, *per se*, high as it is, is not the consideration for such loans as these; and by adroitly entering the market, where there is not one hundred thousand silver coins to be had at any rate of exchange in the way of legitimate business, the borrowers can confidently say to the lenders;—‘Dear sirs, you have the option of repaying our advances in currency, or specie at the rate of the day. We far prefer currency, of course; but we will take foreigners’ dollars, at a price. Do as you think fit.

There is no compulsion whatever, only you must do one or the other.' And it is obvious in either case the specie will pass into the hands of the bankers, and from thence by natural transition into the treasury, from whence it will surely be exported.

It is an admitted fact that silk worth fully five million dollars and saleable therefor, lay in stock at the end of October, the bulk of which has since been shipped. Originally the owners of this commodity had the means of instantly realising it for money; but they preferred to follow evil advice and hold it, in spite of the warnings that direct shipments which were threatened, advances in paper, and other expedients adopted by the native financial institutions to relieve the pressure for want of money, could only end in transferring the real wealth from the lawful owners to other hands, without any adequate consideration. Now, we can see how far these warnings have been fulfilled, by the relative change of positions. The foreigner has got the silk; the bankers and the treasury have appropriated the specie; and the producer has had a quantity of inconvertible notes which he most probably turned into the imports he much wanted at 175, though they are now equal nominally to 158 for 100 silver, yet absolutely unsaleable at any such figure; and a fund of experience which no doubt will make him a wiser and a sadder man. But in the meantime, he is minus his silk, and therefore so much the poorer.

Effect of these transactions is to transfer the people's commodities to purchasers for paper currency only.

THE CURRENCY JUGGLE.

Japan Gazette, March 25, 1882.

In our issue of 11th instant we quoted the official returns to show that the ambition of Japanese students of political economy to secure a "favourable balance of trade" is being fast realised, exports approaching imports in value, and bidding fair to far exceed them in the present year. In the meantime, the drain of treasure continues; and the country is eleven millions of dollars poorer in this respect than it was eighteen months ago. The revenue is nominally equal to the expenditure; actually, the depreciation of the currency, of which it almost solely consists, is supposed to have

Deceptive character of the nominal rates of exchange.

brought about a deficit of something like 20,000,000 yen; nevertheless all expenses are paid, surplus paper is withdrawn from circulation, the "reserve fund" grows larger, and, judging by the financial statements, the prosperity of the government is more marked than ever before. The currency itself reflects the national prosperity, and has improved in value, the record of its fluctuations presenting the following remarkable picture:—

Mch. 24.	154
21.	148
15.	157
13.	161
4.	162
Feb. 4.	165
Jan. 21.	171

The range within two months being 23 per cent. in currency discount, and 16 per cent. in premium on silver.

Fluctuations tend to prove that the credit of the government has improved by 15 per cent. in 59 day!

These fluctuations show, that in spite of the export of gold and silver to satisfy government requirements, of the losses inflicted upon the merchants by the action of the Rengo Kiito Niadzukarisho, of the stagnation of trade, of fresh issues of paper to defray the grave deficit in the revenue, or for the purchase of commodities for export on government account or otherwise in such manner as will prevent the return of the specie proceeds to this country, the credit of the government has improved so much that the debt for paper worth 88,000,000 in specie in January was, on the 21st instant, worth 101,000,000, or about 15 per cent. increase in the short space of 59 days! The question is, how is it done?

How it is brought about.

When the government began to dabble in rice shipments, to buy rice with money from the "reserve fund" and ship it for realisation abroad in order to obtain specie, it was obvious that a continuation of the practice would involve the country in innumerable difficulties. This was plainly pointed out by this journal; and the probability of government interference with other commodities was foretold. Of the adventures in tea and silk the public have ample knowledge. Of what is being done now, and is likely to be done until the people are aroused to a sense of their danger, is very freely discussed. The general belief, which we should like to be in a position to contradict, is that the government,

unable to obtain specie, their needs for which are imperative, on the market in exchange for paper, have been forced to resort to the three-cornered system of either buying commodities direct, or making advances in paper through the national banks on the security of commodities. When this produce is realised either here or abroad there is a certain sum of specie at the disposal of the treasury, for the borrowers have nothing wherewith to liquidate the advances but the proceeds of their goods which the banks, the nominal lenders, are good enough to say will be accepted in repayment of their loans "at the rate of the day." This rate is then assessed, we conscientiously believe entirely without the knowledge of the government, by a process well known to stock-brokers, and the unsuspecting debtor is "bubbled" to the extent of the difference. If a silk dealer, or a number of them, with say one million dollars in hand, and under advances to the extent of 1,500,000 yen, had the courage to enter the market and offer their specie to the highest bidder, what would be the result? The banks are bound to purchase; their existence, in fact, depends upon their so doing; and as considerable individual competition would arise, the rate would be determined by the longest purse. Who possesses that purse, it is not necessary to say; past events have sufficiently indicated it.

The juggle to fix an artificial rate of exchange.

Under these circumstances the mere possibility of the formation of a new bank in which the government are, according to reports which are permitted to circulate without authoritative contradiction, to have an interest, is regarded with serious apprehension by all those who have understanding. The announcement that loans are to be made at a maximum rate of 10 per cent. is a fresh signal for alarm, because it is indirectly a threat of further spoliation. Why? Because the ruling rate of interest being very much higher than 10 per cent., ignorant people will be induced to borrow upon their coming crops of exportable produce, the specie proceeds of which will be used to defray these advances in the same manner as before. If the new Central Bank should offer loans to tea and silk growers at or under 10 per cent., we are satisfied large amounts will be taken, if only for the purpose of repaying advances from private capitalists borrowed at rates ranging from 24 to 40 per cent. per annum; and similar

Apprehensions excited by reported formation of a new government bank.

Probable disastrous results of the present policy.

advances may be made upon other commodities. Thus, the whole exportable produce of the country may be absorbed, and to a large extent most probably will be; and the former owners will have nothing to show for it but a quantity of inconvertible, virtually dishonoured, paper; its purchasing power fast disappearing; which may at any time be the cause of a panic involving the whole country in ruin, and turning a smiling land, which should be peaceful, prosperous, and contented, into a scene of anarchy and possible bloodshed; for the world knows no more dangerous force than a wronged and defrauded people.

The dangers ahead.

If these transactions are carried on solely for the benefit of the banks the effect upon the people will not be the less injurious; but if there is any ground whatever for the prevailing belief that the banks are but the tools and agents of the government, then we are compelled to regard the position as fraught with peril. There are many sagacious men in the government of Japan who cannot be insensible of the magnitude of the dangers ahead. Prudent men among the mercantile class of the people are already endeavouring to calculate the possible extent of the coming disaster, in the hope of saving some fragments from the wrecks of their fortunes.

The warnings which have been uttered.

We repeat here, in terms that will not admit of erroneous construction, that the currency of Japan threatens the ruin of the people: that if the amount said to be in circulation is not vastly larger than it is, the evil could be successfully met by a single honest measure: that every expedient which has been tried has reflected disgrace upon its authors; the reaction has been doubly injurious. The commerce of Japan, at a time when the conditions are most favourable is stagnant or virtually suspended, and foreigners as well as natives are dragged into the vortex, and can be no longer silent. No trade treaties, no domestic legislation, no individual efforts can stem the torrent of depreciation, until the government, with a stern resolve to do their duty, meet the enemy face to face, and inaugurate some system which shall command public confidence and revive belief in the national honesty.

CHAPTER VIII.

THIS short chapter will contain a few comments upon the agitation which took place in the summer of 1879 to secure the tender of the Japanese silver yen at par with the ordinary coin used in eastern commerce, the Mexican dollar. The Japanese government had founded a mint some years previously; and notwithstanding the fact that the coins there made were in all respects equal to the Mexican dollar in weight and purity, and of infinitely superior design and finish, they did not meet with the approval of the Chinese, the great absorbers of silver in the east. Several attempts had been made from time to time to induce the circulation of silver yen side by side with the dollar in Japan and China; but the persistent opposition of the latter country maintained the yen at a discount ranging from $\frac{1}{2}$ to $1\frac{1}{2}$ per cent. The Japanese government were led to believe, during the visit to Tokio of Sir John Pope Hennessy, governor of Hongkong, that the yen could be made a legal tender in that colony; and, as a fact, the proposition to so legalize the yen was brought forward at a meeting of the Hongkong Chamber of Commerce, In Hongkong. held February 24th, 1880,⁽³¹⁾ an animated discussion resulting in a proposition by Mr. Jackson, chief manager of the Hongkong and Shanghai Bank Corporation, seconded by Mr. McEwen (Messrs. Holliday, Wise & Co.) and carried against a qualifying amendment proposed by Mr. H. H. Nelson, manager of the Chartered Mercantile Bank of India, London and China. The motion, which met with one dissentient only, was as follows :—

Agitation concerning the silver yen.

Japanese silver coins.

Attempts made to get them into circulation.

In Hongkong.

(31) See post page 297 et seq.

The resolution. That this chamber memorialise the government to take action with a view to making Japanese yen current in this colony.

The secretary for the colonies refused to act. The hopes thus raised were not fulfilled. The secretary of state for the colonies eventually refused to sanction the proposed measure; and the question gradually

In Yokohama. subsided, so far as Hongkong was concerned. In Yokohama, however, the Chamber of Commerce laid great stress upon the importance of the yen being accepted in China; but without waiting to ascertain how far this measure could be carried out by representations to China, the foreign bankers in Yokohama took an extraordinary step. At the beginning of September 1879, there were only two branches of foreign banks doing business in Yokohama, namely, the Hongkong and Shanghai and the Oriental Bank Corporations, the branches or agencies of all others having been closed. These two banks, apparently acting in concert with the Japanese government, agreed to accept silver yen at par with the Mexican dollar; and the first intimation the foreign public received of this most important step was the simultaneous issue of the two notifications following:—

By foreign banks.

NOTIFICATION, No. 35.

Government notification legalising tender of silver yen.

It is hereby notified as follows:—The Japanese Silver Yen of 416 grains weight and 900 fineness will henceforth be received at par with the Mexican Dollar by every department of the Government, when tendered in payment of Customs duties, or on any other account opened or to be opened in Mexican Dollars.

On and after the 19th instant, the aforesaid Yen shall, when tendered in payment of any sum payable in Mexican Dollars now due or hereafter to become due, be received by all Japanese subjects, in full payment thereof.

SANJO SANETOSHI,

Daijō-Daijūn (Prime Minister).

12th day of the 9th month,
12th year of Meiji.

[September 12th, 1879.]

JAPANESE SILVER YEN.

On and after the 19th instant the undersigned Banks will be prepared to accept and pay the Japanese Silver Yen (weighing 416 grains and 900 touch) at par with the Mexican Dollar. Banks' notification of the same tenor.

In future all accounts will be kept in Dollars, Local Currency—existing obligations being met as heretore unless otherwise arranged for.

For the Oriental Bank Corporation,

D. A. J. CROMBIE,
Acting Agent.

For the Hongkong and Shanghai
Banking Corporation,

A. M. TOWNSEND,
Acting Manager.

Yokohama, September 13th, 1879.

Much public discussion had ensued upon points in reference to the silver yen raised at a meeting of the Yokohama Chamber of Commerce prior to the issue of these notices; and the bankers must have been well aware that public opinion was opposed to the step about to be taken. What the resolution of the banks really meant may now be estimated by the fact that while, since September 19th, 1879, the banks have made no distinction between silver and Mexican dollars, those two coins, outside the banks, have held distinct values, the dollar ranging from $\frac{1}{2}$ to 2 per cent. premium on the yen. Foreign exchanges have been proportionately affected; and very grave dissatisfaction has resulted from this novel and highly objectionable tax upon foreign commerce. The effect of the banks' resolution.

Effect upon foreign ex- changes.

HONGKONG CHAMBER OF COMMERCE.

The following debate in the Hongkong chamber of commerce on the circulation of silver yen, is taken from the *Daily Press* of February 24th 1880. Mr. William Keswick, chairman of the chamber, presided at the meeting. Debate in Hongkong chamber of commerce.

Increasing trade between Japan and Hongkong. Advisability of legalising the yen.

Mr. McEwen :—There is one subject I should like to mention, and that is to ask the Committee whether they have taken into consideration the advisability of the yen becoming a legal tender in the colony. The trade between this port and Japan has largely increased of late and there is every probability of its still further increasing. There was a deputation of Chinese the other day to his excellency the governor on the subject and as I see there is a Chinese banker present, perhaps he may have something to say on the subject.

The Chairman :—I may mention the subject of the yen has not been brought in any way before the Chamber. The committee will be very happy to consider it if it be brought before them, though it would be desirable, now it has been mentioned by Mr. McEwen at this meeting, if the representative of the Chinese bank will give us any information.

Fictitious character of a memorial in reference to the yen for use in Hongkong.

Mr. Nelson :—In the absence of any communication from the Government on the subject, the Chamber is hardly entitled to consider the question which is before them. I learn from Chinese sources that the memorial which was presented the other day was got up by a gentleman rather well known in the Colony, who is in the employ of the Japanese Government, and who is more or less mixed up with the opium farm and other matters in the Colony, and who is on very intimate and friendly terms with the head of the Government in Hongkong. Now, bearing in mind the manner in which equally spontaneous expressions of opinion on other matters have been utilised in the Colony, I think one may justly come to the conclusion something is to be done in this matter, and I think, in the absence of any communications from the Government, it is not unbecoming on the part of the Chamber to invite some little amount of confidence in the matter, supposing anything is being done. I suggest the Secretary put himself in communication with the Government and make an inquiry whether anything is being done.

Hon. P. Ryrie :—This is no new question; it has been discussed very fully.

Mr. Nelson :—Not the yen; that was the trade dollar.

Former reason for refusing to accept yen was want of confidence in the purity of the coin.

Hon. P. Ryrie :—No; there was a very long discussion on the Japanese yen in this Chamber, and the opinion of the majority of the members was against it, principally because—at least the reason assigned was that—this community or this Chamber had not sufficient confidence in the Japanese Government as to their keeping up the purity of the coin. I think these were the main grounds of the objection to the coin. I have myself had conversations on the subject with gentlemen who were well informed, and I have also had conversations on it with the late master of the Japanese Mint,

Major Kinder, and I believe that the most perfect and reliable assurances can now be given by the Japanese Government that the purity of the coin will be kept up. I certainly expected to-day there would have been a reference to this before the present stage of the meeting, and I was very glad to see Mr. McEwen get up as he has done. I think it is a very fit subject for discussion at this meeting, and I don't think there is any necessity, before proceeding to discuss it, to consult the Government at all, having regard to what has previously occurred in this Chamber. The Government may have its own views; I don't know what they are; I only know the views of a gentleman unconnected with the Government. And seeing these coins are now received at Foochow, Canton, Singapore, and Penang, I think the time has arrived when we may take up the question again; and perhaps, from what we may learn when we do take it up, the Chamber may arrive at a different conclusion from what it did on a former occasion.

Yen circulate at
Foochow, Can-
ton, Singapore,
and Penang.

The Chairman, referring to the previous speaker's remark that the yen was taken at Foochow and Canton, asked whether he meant to say it was taken by the Government in payment of duty and taxes, or was it taken by traders, or by traders only in a limited degree, as these were two different things? Manner of circulation.

Hon. P. Ryrie said that at present his information was not derived from the experience of his own firm as to whether the yen were taken by the traders at Foochow, but his information stated so. That would be a question for the Chamber to inquire into when they took up the matter.

Mr. Deacon said the coins were accepted in Canton.

Mr. Arnhold said the question whether the coins were accepted in the ports was a very important one, and under all the circumstances, as they knew negotiations between a part of the community and the Government had taken place, he thought it was very desirable they should know what was being done and what assurances could be given for the purity of the coin.

Mr. Jackson:—I can answer the question that was put to Mr. Ryrie by saying that yen are preferred to anything else at Amoy and Foochow. They are taken readily and in any quantity. That is our experience within the last few weeks, and last year they took all the yen that we sent up. It is also taken in the Straits Settlements and Penang. Within the last ten days the Hongkong and Shanghai Bank has received a telegram stating that Chinese prefer it to the Mexican dollar, and there the currency is clean Mexican dollars, not chopped dollars. I think the experience at the coast ports is in favour of it; and they would prefer it if it were made current in Hongkong. Yen are preferred at Amoy and Foochow,

Importance of circulation to bankers and merchants.

No doubt as to the reliability of the coin.

Interest of coiners to maintain the purity of coins.

Former tampering with the currency in Japan.

the trade with Japan being larger than it was some time ago, and I have no doubt it will go on increasing. Communication with Osaka has been opened by the Mitsu Bishi steamers and already direct shipments have been made on a large scale. Now it would be a great boon to this trade route if we had the yen current here. It would facilitate merchants drawing against their shipments if banks knew that they could have the proceeds of their bills sent here in the event of their not having use for the money in Japan, and trade would be greatly benefited thereby. I am sure this is a very important question. As to the reliability of the coin. I think it is now beyond all doubt, no matter what the experience of the past may have been. The Japanese are now possessed of one of the best mints in the world, they regularly send their coins for assay to the mints in Calcutta and San Francisco, and they have the strongest motive, that of self-interest, to induce them to maintain the purity of the coinage, as they are seeking to circulate it beyond their own shores. We might say, what guarantee have we with regard to the Mexican dollars? We have no guarantee under the sun. We know nothing about the people who manufacture them, but we do know this, that they have hit upon a very profitable industry, that the coins are always marketable because of their purity, and that it is therefore to their interest to maintain that purity. And this is plain reason. But I think we do the Japanese an injustice in doubting them on a matter of this kind. I think they would be about the last nation to do anything dishonourable, after pledging themselves to the whole world. But it may be said they tampered with their currency before, and what guarantee have we that they will not do so again? The cases are not the same. The coins they tampered with were not the silver yen, but the old currency of Japan, which was not intended for circulation outside their own shores, and the Government was then barely established. But in this matter of the silver yen they are not making for circulation in Japan, but are seeking for circulation in China and the Straits. For the reasons I have mentioned I think it would be a desirable thing to make the yen current here, and I think this Chamber ought to take action.—(Applause.)

Hon. P. Ryrie:—I would like to add the remark that perhaps it would be better to coin our own dollars, but as that seems utterly hopeless, I think we might now support the yen, especially after what Mr. Jackson has said.

Mr. Nelson:—There are many things to be said *pro* and *con*. I may mention that with regard to Amoy, I have been informed from Amoy that the yen are only taken there when mixed up with other dollars.

Mr. Jackson:—That is not the case now.

Mr. Nelson:—But it is a great question as to whether the Japanese are really a nation whose history and veracity and interest are such as that they should be selected as the persons to make coins for the Chinese. It is a matter which must be more or less one of opinion. I hold the opinion that they are not and that it would be a mistake for the Chamber, for the sake of any advantage we might get in equalising the exchange between Japan and this, to bind ourselves down to a course which has to my mind very serious objections.

Question whether Japan should be selected to coin money for China.

The Chairman:—There is one matter in connection with this which might be mentioned, and that is the likelihood of the Japanese continuing this coin. They cannot mint the coin and put it in circulation without losing by it. If in Japan there was a large production of silver and by stamping it in the form of a yen and giving it currency money could be made by it I think we would have every guarantee for the purity Mr. Jackson has mentioned, but so far as I can understand the question the Japanese nation is not in a position to obtain from Japan silver in such quantity as to make it a permanently paying thing to issue that silver coin, and if Japan has to go into other markets for silver I don't think it is likely the issue will be long continued. However, that is not a question that need affect us much in recommending the adoption of the coin. There are advantages to be obtained so long as that coin is produced, and I think the colony would benefit. I simply mention how it strikes me, that there is no guarantee for the permanency of the coining of the yen for the simple reason that it cannot pay the Government to continue it.

Yen cannot be minted without loss to Japan.

Hon. P. Ryrie:—As to the paying or nonpaying, the statement that was made to me by a gentleman connected with the Japanese Mint and Finance Department was something to this effect, that the Japanese having a magnificent mint and thoroughly competent staff in their employment, although they might lose—I don't know it as a fact that they do, but I take the words of the Chairman—although they might lose on making the yen, supposing they coined nothing else, they can make their mint pay with smaller silver coinage and copper coinage, and therefore can afford to coin the yen on much better terms than a mint which did not produce those coins.

Loss said to be recouped from subsidiary and copper coinage.

Mr. Arnhold said it struck him that there could not be a very great difference in freight, and it could not be much cheaper for the Japanese to import their silver from America than for us to import our Mexican dollars. Therefore the question raised by Mr. Keswick would be a very serious one.

Imported silver and imported dollars.

The Chairman:—I did not make the remark as an objection, I simply mentioned the matter as occurring to me, I

think I am right, but I may be wrong. It does not, however, make me desirous of throwing any obstacle in the way of the introduction of the yen. I think it would be an advantage to us.

Export of silver
from Japan.

Mr. Jackson:—I think I can throw a little light on it. We all know that it is only a few years since Japan was opened, and before that not a single ounce of silver was imported into the country. Well, how comes it that during the last twelve years a hundred million dollars' worth of silver coins have been exported from Japan—of old coin, some of over a hundred years ago? I believe the mint is a very profitable concern, taken as a whole, and if the coins were made current here it would be much more so.

Mr. Nelson said it was not accepted in Japan that there was a supply of silver; and the amount referred to by Mr. Jackson was the accumulation of centuries.

Motion.

Mr. Jackson:—I propose,—

That this Chamber memorialize the Government to take action with a view to making Japanese yen current in this Colony.

I believe it would be to the very best interest of Hongkong.

Mr. McEwen:—I beg to second that.

Amendment.

Mr. Nelson:—I move an amendment—

That the Committee of the Chamber endeavour to ascertain what steps, if any, have been taken by the Government with a view to legalizing the Japanese yen in this Colony, and what guarantees, if any, are offered by the Japanese Government to keep up the present currency to standard.

I think before the Chamber commits itself to such a recommendation they should be perfectly sure of their ground and do it with full confidence, which I for one do not feel in reference to Japanese coinage.

Guarantees
should be
obtained as a
first step.

Mr. Sharp—Mr. Chairman, I think there is not one member of this Chamber who would not gladly and heartily welcome the Japanese yen into the Colony if they felt they could rightly do so. The matter was very fully discussed before and the opinions were then recorded which have been mentioned by the Chairman and which have been referred to by Mr. Ryrie. At that time—it is now some two or three years ago—there were not those guarantees forthcoming for the continued purity of the coin. Very likely now the Japanese Government may be willing and able to afford to the Chamber, to the bankers, and to the community of Hongkong, such evidence as will be satisfactory and which will enable the Chamber to revoke its former verdict in this matter. I think with Mr. Nelson that the more suitable, the more dignified, the more proper manner would be, instead of hastily welcoming the yen and begging it may be poured into this colony, to endeavour first to ascertain whether the Japanese Government are willing and able to afford such

guarantees as will be regarded by the bankers and merchants of this colony as satisfactory evidence of their determination as well as ability to continue the genuine character of the coin as it undoubtedly now exists. I hope the proposer of the motion will not insist on a division in the matter, because I believe we all feel alike upon it. The Japanese have shown such an earnest desire to meet the wishes and run parallel with European civilisation in every way that I think they will be able to satisfy the Chamber on the subject as Mr. Nelson has proposed.

Mr. Jackson:—A few words to the amendment. I can- Request for
not agree with Mr. Sharp. I don't think that it would be guarantee would
desirable to force the Japanese Government in any such way. be an insult to
I think it would be almost an insult to the Government. the Japanese
They give us the very best guarantee they possibly can, that government.
is, that quantities of the coin are sent to the mint in San Francisco and to the Royal mint in Calcutta, either annually or six-monthly, for assay. I don't think it would be practicable to put the question to the Japanese in that way. They would say, "What do you mean? You insult us." I think we have the best guarantee we could have.

Mr. Nelson:—Clearly the Japanese are anxious to get The anxiety to
their currency into the colony; we are not particularly obtain currency
anxious for it. They are anxious their coinage should be is on the part of
accepted in British colonies. Looking at it from that point Japan. The
of view, I don't think there is any insult in the Government, public should
before admitting it, ascertaining the grounds they are going have a guaran-
on, ascertaining they are doing the proper and straight- tee.
forward thing, and letting the public know, so that those interested may weigh it well. I think in admitting a currency from a country like Japan into a British colony there is nothing undignified or insulting in asking such a question as that contained in the amendment.

Mr. McEwen:—I don't know whether you are aware that although the mint is Japanese it is worked by Europeans holding high positions. I don't make that remark in consequence of not having faith in the Japanese; I merely mention the fact.

Mr. Nelson:—But the employment of Europeans by the Japanese is not a thing that can be counted on from month to month in any of their departments. I think the experience of the last few months shows that.

The chairman asked Mr. Sharp if he seconded the amendment.

Mr. Sharp said he hoped Mr. Jackson would withdraw his motion.

Mr. Jackson declined to do this.

Mr. Sharp then seconded the amendment.

Mr. Williamson :—I take it that in any case, during the negotiations that would take place, the information would come to the knowledge of the Chamber.

Mr. Nelson :—But the resolution is that we at once address ourselves to the Government asking that the coin be introduced.

Mr. Williamson :—Not unconditionally.

Hon. P. Byrie :—The memorial might set forth that it had come to the knowledge of the memorialists that the Government of Hongkong has been in communication with that of Japan on the subject, and that they hope the Government will be fully satisfied in their own minds of the advisability of the step from the representations they have received.

Original motion carried.

The amendment was then put to the meeting and was voted for only by the proposer and seconder.

The original motion was then put and carried, only one hand being held up against it.

Views of the
*China Overland
Trade Report* on
the legalisation
of the yen.

IN connection with the report of the meeting the *China Overland Trade Report* made the following comments on the resolution carried thereat.

The discussion
appears to have
been hurried.

The Hongkong Chamber of Commerce have, by a large majority, decided to memorialise the Government to take action with a view to making Japanese yen current in this Colony. In our last issue we published the translation of a petition signed by some two hundred Chinese merchants and others to a similar effect. It is obvious, therefore, that a strong desire prevails in the Colony to have the products of the Osaka Mint made a legal tender to replace the old Mexican dollar. The discussion on the question at the meeting of the Hongkong Chamber on Monday appears to us, however, to have been somewhat hurried, and it is to be hoped the decision arrived at was not too hasty. That it is desirable to have the yen legalised, if we cannot have a British dollar coined for the use of Her Majesty's Colonies in the Far East, we believe, but it should not be forgotten that the legalisation of the yen will preclude any likelihood of a coinage being ever established here.

Contingency of
short supply.

Moreover, we cannot be blind to the contingent possibility, so clearly pointed out by the Hon. W. Keswick and

emphasized by Mr. Nelson, of the supply of yen not proving a permanent one. Japan not being a great silver producing country will have to purchase the bullion, and there is some question as to whether the profit on the subsidiary coinage will continue to pay for the expense of running the Mint. Japan is very anxious to get her currency into Hongkong, and rightly so, nor can there be any objection to the yen, which is a vastly superior coin to the Mexican dollar. The only questions that occur to us are these—Will the Chinese at all the treaty ports accept them at par, and is the supply of the coin certain to continue? We do not doubt the *bonâ fide* of the Japanese Government in the least: they have given such repeated proofs of their earnest desire, as Mr. Granville Sharp aptly put it, to run parallel with European civilisation and to earn a reputation for national integrity that they may be relied upon to maintain the purity of the coins. But it is just possible that a day may come when they will deem it advisable to discontinue the coinage of these yen. Of course it may be argued, in reply to this objection, that the Colony would then be in the same position it is at the present moment. And, on the whole, it is probable that the immediate advantages will outweigh other prospective and speculative ones that suggest themselves in connection with the proposed but apparently unobtainable British dollar. Now that direct and regular steam communication has been established by the Mitsu Bishi Steam Ship Company between Hongkong and Osaka, the great commercial city of Japan, followed by a new development of trade, it is more desirable than ever that the yen should be admitted as current here, and if made so will prove a great convenience to those engaged in the increasing trade between Hongkong and Japan. The legalisation of the yen in the Colony is, after the resolution passed by the Chamber of Commerce, only a question of time, as there is every reason to believe that Governor Hennessy is highly favourable to such a proposition. We only hope that in the event of the yen being made current in Hongkong it will prove beneficial alike to the colony and to Japan and serve to promote the growth of the commercial intercourse between them.

Japan must purchase bullion: will it pay to do so?

Questions are—Will Chinese accept yen? and is the supply certain to continue?

Coinage may be discontinued.

Legalisation only a question of time.

Foreign press
in Japan.

THE articles following will explain the views taken by the press of the action of the two chambers of commerce, and of the banks here.

JAPANESE COINAGE FOR CHINA.

Japan Gazette, July 26, 1879.

Large reserves
of silver avail-
able if the silver
yen be made
current.

Mr. Watson betrayed no confidence in saying, at the meeting of the chamber of commerce on the 8th instant, that the specie reserve of the government amounted to between five and six millions of yen. The reticence of the finance minister on this point has been so extraordinary, and has provoked so much adverse comment, that it is by no means improbable this indirect course has been adopted to convey to the public the fact that the treasury does contain some specie, but we doubt if five to six millions can be styled "large reserves of silver yen" in face of the fact that the sum represents but three to four per cent. of the total admitted liability on notes for 155,000,000 of *gold yen*. The calculations upon which we have hitherto relied have pointed to a belief in the possibility of the specie reserve being ten millions; it is now said by a gentleman to whom the fact has been declared, that the limit is six millions, and still "the treasury is not almost emptied of specie."

The yen are
current as silver.

We are wholly unable to follow Mr. Watson through his argument or expression of opinion. That a reserve of silver yen can actually lie useless in the state coffers is a contradiction in terms, because the coins are current as silver, and can be used for all the purposes for which silver is available. What does this reserve consist of? Of the old yen, trade dollars, or new yen? There is a reputed difference in standard between all these coins, but all of them, equally with the Mexican dollar, are current as silver at its intrinsic value.

Chinese preju-
dices against
silver yen as
coin.

There can be no object in disguising the truth, however disagreeable it may be, and we are obliged to say the Chinese and other people will not accept the seal or stamp of the Japanese mint as a guarantee of value; it is not sufficient security: and even if the legislative council of Victoria should decree the coinage of this country to be a legal tender there still traders would not accept it, for years to come if ever, except in comparison with the known standard of the dollar, and again, like

the dollar, it would be instantly reduced by the furnace to shoes of sycee. Whatever the action of Hongkong Silver, not coin, may be in this matter it is quite certain that it can have no influence upon the Chinese of the coast and inland markets. The Hongkong mint which had at its command influences that Japan cannot have, did not answer the purpose of its promoters. If Japanese yen are sent to the west coast, or to Amoy or Foochow or Formosa or to Canton, the value will simply be the weight and fineness of the silver, minus the cost of melting it into sycee. The charges incurred in Japan Mintage fees are wasted. How Japan is to profit we do not know. The value of a "legalized circulation" in Hongkong is a mere triviality; and we look upon the whole theory of Mr. Watson as delusive. He is arguing in a vicious circle. The real question at issue is not whether Japan shall provide a coinage for China, but what she can coin for her own needs. If the gross reserve of 6,000,000 should consist of new silver yen it could have been put into circulation at about one per cent. discount with dollars, the loss being only 60,000 yen; or, better still, the treasury could have bought up and withdrawn a liability of 8,197,200 *gold yen* for their 6,000,000 of silver.⁽³²⁾ Are these evidences of an embarrassing position in consequence of the uselessness of the metallic reserve? We think not, but Mr. Watson says the government "were only too eager to apply for remedial purposes large reserves of silver yen actually lying useless in their hands from the fact of the coin not being current though it is of identical fineness with the Mexican dollar and of incomparably higher finish and greater regularity of touch.

A few more words are to be said about the importance of the yen being made current in Hongkong. The mint established there some years ago turned out a large coinage of Hongkong dollars. That coinage has practically disappeared, for it exists no longer as a coin but only in sycee into which it was speedily reduced. It never circulated beyond Hongkong as a coin, and was only regarded by Chinese as so much silver of trustworthy fineness, but never as a coin.

We are all familiar with the fable of the cat on her travels, and her question:—

(32) 6,000,000 silver yen at 1 per cent. dis.= \$5,940,000 at 33 per cent. prem.= *kinsatsu* 8,197,200.

"How was the first owl produced?"

"From an egg."

"But who laid that egg?"

"Why, an owl, to be sure."

Before an outlet for coin is necessary, the bullion to make it must be obtained.

Mr. Watson asks for an outlet for coined bullion. But the bullion must be first imported, and as Japan possesses nothing to exchange for it, it must be paid for in bullion. In other words bullion must be imported and subjected to a tax for mintage into yen, to be then sent away and re-melted into its original state of silver bullion. Can Mr. Watson be serious in asserting that it is by such means the paper currency of Japan can be supported, or can he be earnest in putting forward the truly astounding theory that if the government had been in a position to "avail of the power at their command paper would never have been at a greater discount than ten per cent.?" We expect an answer.

What is meant by the expressions, silver yen are not current? and, yen ought to be made a legal tender in China?

What is the meaning of the expression "silver yen are not current"?

What does the chamber of commerce mean by saying that Japanese yen ought to be made a legal tender in China, and that such a measure is necessary to give currency value to silver yen?

There have been three distinct issues of yen.

In answer to the first question, it would appear that silver yen, if of a known and reliable value in comparison with the clean Mexican dollar, would always be current in accordance with its known value: but unfortunately Japan has not been steadfast in its original intention in the coinage of the yen. The yen of to-day has no fixed standard. The yen first coined possessed a slightly different intrinsic value to the two subsequent issues of the trade dollar and the new silver yen, both the latter differing. Thus it occurs that there are three distinct values for Japanese silver yen. The first coinage may be supposed to be somewhat inferior to the recognised currency of the east—the Mexican dollar—the second to be slightly superior, and the third of a weight a trifle in excess of the first issue; and as its value has already had three changes it may be assumed that future issues may be liable to still further fluctuations in value. This fact, of course, necessitates the careful inspection and shroffage of every coin when

Japanese silver yen are paid in or received as an equivalent of the Mexican dollar, especially as the yen must be looked upon as a coin subject to the possibility of having to be exported away from Japan. In fact, the foreign banks in Yokohama merely look upon the yen as a piece of silver in a certain form, of no more value than another piece of silver of equal weight and purity that has not undergone the expensive process of minting; and they only receive it under such conditions. The second question is partly answered by the reply to the first, with this addition. In China silver coins of whatever mintage or country are looked upon as the basis of their sycee—shapeless pieces of silver of a certain alloy but unequal weights—each 'shoe' of which has the weight and touch imprinted upon it. It matters little to the Chinese whence these coins come. Their aggregate value is decided by their result in sycee. Bar silver, which has not undergone the expensive process of minting, is as valuable as the minted coin in accordance with its purity and weight. In China there is as yet no mint, properly so-called, but the melters of silver into sycee supplement that deficiency. It is unlikely, therefore, that China would send its bullion to Japan to be coined into a special form and thereby increase the cost of its currency, or, in other words, decrease the value of its bullion, sycee.

In China, all coins are looked upon as the basis of sycee only;

and the persons who reduce coins to sycee take the place of a mint in China.

Mintage is considered a tax upon the metallic products of a country. In Mexico mintage is enforced. All silver produced from the mines of any state in that republic has to be passed through the mint before leaving that state. It cannot be exported even from state to state legally, or without defrauding the producing state of its legitimate dues. The export of bar silver is contraband. Japan is different to Mexico. It is not a silver producing country. It cannot keep up a mint without large expenses. To employ its mint it does not count upon the products of the country, but upon imported bullion from foreign countries. Its minted coin when exported loses all the labour and expenditure lavished upon it, and it appears before the world as simply so much gold or so much silver of certain purity and weight, equal, in fact, to similar quantities and alloys of silver and gold in bars. It is hopeless to expect to recover the expenses of minting after the coin leaves the country in which it was minted,

Mintage is in reality a tax on metallic products of a country.

Japan does not produce silver.

Its Mintage is lost so soon as the coin leaves the country it was made in.

The Mexican dollar is sold in Europe for so much money per ounce, not so much per coin. Its quality or alloy is recognized as it, dissimilar to the Japanese yen, has not fluctuated; and its market quotation is solely for weight as bullion.

Enforced currency of yen is a taxation of the currency of China.

A demand or proposition on the part of Japan for her coins to be recognized as legal tenders in China is tantamount to an attempt to acquire an interest in the *direct taxation of the metallic currency of that country.*

Coöperation of Mr. Hennessy;

We are not surprised to learn from Mr. Watson that the coöperation of Mr. Hennessy⁽³³⁾ has been requested by the Japanese ministers, but we are surprised at the questionable suggestion that Sir Harry S. Parkes should avail of the opportunity of Mr. Hennessy's visit to this country to confer with him for the purpose of bringing about a proper understanding on the subject. H. B. M. minister is not likely to enter upon a discussion of palpable fallacies, nor is it probable he will advocate a measure which proposes to tax the commerce of Hongkong in its relation to China for the benefit of this country.

its value.

With Mr. Hennessy the case is somewhat different. He has already given the Japanese a proof of his business acumen by estimating the trade of Hongkong at ten times its actual value and importance. He may recommend the government of Japan to rely upon his influence to make the coin of this country a legal tender elsewhere. The result will surely be that the government will find they have committed an economical error which will entail upon them serious loss. They will buy bullion, cut a portion off for the mintage fees, coin the remainder and put it into circulation as money, to discover that its value is only intrinsic and that estimated with due regard to the cost of again reducing it to bullion as soon as it is exported to China.

Conclusions of the Yokohama Chamber of Commerce.

The report of the tariff revision committee of the Chamber of Commerce is brought to a close by two

(33) Sir John Pope Hennessy, then Mr. Hennessy, was on a visit to Japan when this article was written; and his presence was regarded by certain sections of Japanese society as a favourable opportunity to secure his influence in aid of various projects, the enforced currency of the yen in Hongkong, of which dependency Mr. Hennessy was governor, being one.

paragraphs relating to currency. The first is to the effect "that trade suffers severely from the amount of "inconvertible paper in circulation," and proposes, as a remedy for the disease, "a general adjustment of the currency, proportioning the amount of paper to the amount of coin." The committee do not, however, think it necessary to enlighten the foreign representatives upon whom they cast the burden of carrying out the proposition, how the adjustment of paper to coin is to be brought about. The anxiety of the government about *satsu* is attributable solely to the impossibility of "adjusting" the amount of paper to coin. There are 155,000,000 of the former and 5,000,000 of the latter, or a deficit of 150,000,000 yen, thirty millions sterling, to be made good before the "adjustment" proposed by this intelligent committee can be carried out. We cannot but regret their most valuable suggestion for an "adjustment" should be unaccompanied by other suggestions, which would at least have the merit of showing that the committee were not absolutely ignorant of the utter impracticability of their proposition to "adjust" the paper currency.

The second paragraph is also a recommendation to the foreign representatives that the "silver yen should be recognized as on an equality with the Mexican dollar, under guarantees for the maintenance of the present standard and of a sufficient supply; and *always provided that it is accepted as current in China.*" Here again the committee have failed in their duty. How is "the present standard" to be ensured? How is "a sufficient supply" to be kept up?

We should have disregarded the views of the committee on these subjects were it not that they have been confident enough to conclude their report with the following words. "They may add that they believe their suggestions embody—as far as it is possible—the sentiments of at least the majority of foreign residents in Yokohama."

THE SILVER YEN.

Japan Gazette, September 19, 1879.

The notifications recently issued by his excellency the prime minister and the foreign banks are likely to prove of greater importance than would at first sight

appear, and may have a very great influence upon commerce and foreign exchanges, in proportion to the amount of silver yen at the command of the government.

Peculiar form of the notification.

The form of the notification attracts attention. The minimum weight and purity of the silver coined in the mint of Japan are 416 grains troy and 900 respectively, and it is, consequently, a surprise to find a government notification legalizing its circulation issued with a proviso implying a reservation on the part of the imperial government in connection with the acceptance of the very coin they have themselves issued. The notification reads as follows:—"The Japanese silver yen of 416 grains weight and 900 fineness will henceforth be received at par with the Mexican dollar by every department of the government, when tendered in payment of customs duties, or on any other account opened or to be opened in Mexican dollars." The meaning of these words is seemingly that if the yen tendered conform to the published requirements of weight and purity they are a legal tender. By implication there are coins which do not reach the standard, or there are spurious coins, to protect themselves against which the government have inserted a condition in the decree of legalization. How otherwise are we to construe a notification which relates to the reception, by government departments and the public, of coin issued by the government and guaranteed by them to be of the purity and weight it purports to be? So far there has been no reason to question the integrity of the mint in the coinage of the yen, or in the weight or purity of those coins being below the minimum standard originally notified, any variation from which has invariably been against the mint and in favour of the coin; but the tenor of the prime minister's notification raises a suspicion it will be very difficult to allay, while the insertion of a very questionable saving clause may defeat its entire object.

What the meaning of the qualifying words seemingly is.

Silver yen always current in accordance with their true value.

In the consideration of the proposition for a Japanese coinage for China we took exception to a remark made by Mr. Watson in the Chamber of Commerce, to the effect that silver yen were lying useless in the treasury because the coin was not current, relying upon the fact that silver yen if of a known and trustworthy value in comparison with the

clean Mexican dollar, would always be current in accordance with their true value. This fact is set out in express terms in the notification now issued. We added then that as there had already been three coinages of unequal value it may be assumed that future issues will be liable to some degree of fluctuation, necessitating the inspection and shroffage of every yen when paid as the equivalent of the dollar; this more particularly so when the possibility of having to export it is taken into account. The notification does not legalize the circulation of silver yen coined at the Osaka mint, but of coins of 416 troy grains in weight and containing 90 per cent. of pure silver: under such conditions any coin should circulate *pari passu* with the Mexican dollar.

This fact only is set out in the notification.

The notice given by the banks of their readiness to accept and pay silver yen at par with the dollar is properly qualified by the same reservation as to weight and fineness; a declaration in another form but equivalent in every sense to what we stated to be the case in the following words:—"In fact, the foreign banks in Yokohama merely look upon the yen as a piece of silver in a certain form, of no more value than another piece of silver of equal weight and purity that has not undergone the expensive process of minting; and they only receive it under such condition." The prime minister's notification, therefore, must be read as an indication that if the coins issued from the mint are found on examination to be of the required weight and purity they will be accepted; a reservation very unfortunate and incompatible with the dignity of the government.

Banks' reservations support previous arguments of the *Japan Gazette*.

The utility of this notification is open to some question. Silver coins of any mintage are, out of the country in which they are minted, only so much bullion. Bar silver, we repeat, which has not undergone the expensive process of minting, is as valuable as a commercial commodity as the minted coin in accordance with its purity and weight; and the object of a mint should be to give for social convenience, and to facilitate commercial transactions, an authoritative value to gold and silver bullion by turning it into coins stamped with their true touch and weight. In Japan, therefore, all silver yen coined at the Osaka mint, to be made serviceable, should be a legal tender without any qualification, instead of being merely, as now, a coin to be accepted when the receiver has satisfied himself it contains 416

Silver coins, outside of the minting country, only so much bullion.

What the notification should have made clear.

Is there a
sufficiency of
yen?

Questions that
arise.

Impossible to
maintain a
supply of silver
without expense.

6,000,000 in
treasury. Mint
returns con-
tradict the
statement.

grains of silver of 900 fine, an operation exceedingly difficult if not impossible to persons who are not experts.

The point requiring consideration is, are there sufficient yen coins to meet the requirements of trade and to cover the expenditure of the government, which latter alone entails a considerable export of precious metals, equivalent, for the financial year of 1878-79, to about eight million yen. Six million silver yen are said to be in the treasury, and no doubt a portion of this will be put into circulation or paid to the foreign banks for drafts in sterling money. In any case so long as government expenditure continues there will be a steady export of specie, and as Japan can not be considered a bullion producing country it is difficult to see how the supply is to be kept up. If silver is to be imported for the mint's supply what is to be exchanged for it? If silver be imported and coined by the government, who is to pay the cost of mintage? If the government, there will be a loss to the state; if the public, then they will be taxed for the acquisition of a coin which, outside of Japan, will only circulate *pari passu* with uncoined silver. These considerations seem to point to the impossibility of maintaining a supply of silver yen for export without subjecting either the government or the people to a tax for the performance of a work of superelevation. We understand, however, the finance minister is satisfied that he can command a sufficient supply of silver yen to meet all requirements, but it is very necessary that some more substantial guarantee should be given. With regard to the statement that the treasury contains six million yen, it is unfortunate that the official returns of the mint, emanating from his excellency Okuma, should directly contradict the assertion. In the investigation of the matter, we are obliged to be contented with such records as are now available, which do not extend beyond the 30th June, 1878. At that date the coinage of silver yen was 4,766,378, and of the trade dollar 3,023,927; in all, 7,790,305. For the year ending June, 1878, there were no yen coined, and only 436,673 trade dollars. The yen being useless, in consequence of its non-acceptance, was not, we are advised, coined at all during the year to June, 1879, and as the trade dollar has been properly kept out of circulation, its coinage would be discontinued. We are therefore safe in assum-

ing the total coinage of silver yen and trade dollars to be under 8,000,000. In the estimates of treasure on hand published in the *Japan Mail*, "silver coin" is credited with eight millions of yen, but we are informed that trade dollars are regarded as bullion, and must be deducted from this sum. All we have now to deal with is 4,766,378 silver yen, a portion of which has been exported, leaving a possible maximum balance of 3,000,000 yen in the hands of the finance minister. In anticipation of the acceptance of the silver yen at par, the mint recommenced its coinage in August last, turning out probably 80,000 coins daily. The utmost extent of the mintage to this date will not exceed 1,000,000 yen, and in taking 4,000,000 as the treasury reserve the most reasonable allowances are made. Upon the assumption that the government are animated by a desire to benefit trade, the judicious use of these reserves may have the effect of restoring confidence in *satsu*, the fluctuations of which, excited by speculators, are exerting a most evil influence upon legitimate trade. In applying the specie reserve with caution to the satisfaction of *bonâ fide* trade demands the finance minister may render an incalculable benefit to the country, by assisting the honest trader to carry out his engagements contracted in specie, to meet which he possesses, and can only expect from the consumer, the paper money which forms the sole currency of the empire. All real traders are restricted in their operations by the abominable speculations in exchange, and if the finance minister can establish one uniform relative value between yen and *satsu* and, by a careful use of metallic reserves, put an end to the fluctuations of five and even ten per cent. in as many hours, the notification of the 12th instant will prove highly beneficial to every person throughout the country.

Treasury
reserve can-
not exceed
4,000,000.

The measure comes into operation to-day (19th Sept., 1879), and upon the developments of the next week depend a favourable turn in currency exchange or a serious downward movement, either being a natural consequence of the notification. If the holders of paper find it impossible to obtain relief in exchange, the consequences will be as serious as they should be beneficial if a sufficient quantity of specie is made available, and upon the realisation of the hopes confidently entertained that the treasury will proceed to lessen the pressure now put

Probable effects
of the measure.

upon *bonâ fide* holders of currency, all opinions as to the effect of the measure will depend.

THE LEGAL TENDER.

Japan Gazette, October 8, 1879.

The Hongkong and Shanghai Bank consults its constituents after the issue of the notice.

A circular note has been issued by the Hongkong and Shanghai Banking Corporation to the depositors with the bank, asking them to corroborate the notification of the 13th September, with regard to the acceptance and payment of yen at par with Mexican dollars. This circular note was only issued on the 1st instant. The notification appeared on the 13th September. If the concurrence of the depositors with the substance of the notification was necessary, the circular note ought to have been issued prior to the notification to which it relates. If the concurrence of depositors is unnecessary the circular note is valueless. It would appear, from the circumstance that such a circular note has been issued, that there is some risk to be run by the acceptance at par of these two coins, and that the banks having issued the notification more for the benefit of the present financial position of the Japanese government than for any ulterior benefit of foreign trade, are desirous to shift the responsibility they have incurred of any possible future loss to the shoulders of their constituents.

The banks should be called upon to guarantee merchants from loss.

We should suppose that before the mercantile community of Yokohama would accept so great a responsibility they would require the banks to guarantee them from loss; or from the results of any unfortunate complications hereafter; such, for instance, as a guaranty that any banks already here, and that may in future be established, will accept the silver yen on a par with the dollar in payment for sterling drafts.

Complications in exchange have arisen.

In a former article on the subject of this notification we prophesied that complications would arise from it with regard to foreign exchanges; we understand that such complications have already arisen showing the necessity for some protection against operations which may entail losses upon one of the parties to every foreign exchange transaction.

The recent notification legalizing the silver yen as a tender at par with the Mexican dollar, has certainly had the effect of changing the form of exchange quotation. Before the notification silver yen were quoted at a discount; after the notification Mexican dollars will have to be quoted as the fluctuating medium.

The action of the Chinese is awaited with some interest; if they will receive the yen on the same terms as the dollar many difficulties will be obviated; if they will not do so, the most probable course if the length of time required to bring the Mexican coinage into circulation be considered, the position will be one of some embarrassment. Two of the banks doing business in Yokohama have agreed to accept the yen and the dollar at par, but the Comptoir d'Escompte de Paris has not followed their example. Business changes have lately caused one bank to discontinue its agency here, and other limitations of banking operations in those directions where trade is now increasing instead of diminishing render the establishment of another bank possible, if not probable. What guaranty, resuming the thread of the argument, have the public that the banks already here, and those that may in future be established, having before them the actual experience of the practical working of the notification, will follow in the footsteps of the other two; and that a double currency, upon unequal terms, will not be the result?

If the Chinese will not accept yen at par with dollars foreign exchange must suffer. It is obvious that if yen cannot be remitted to China and sold there upon equal terms with dollars, the latter coin will certainly, for purposes of export, be at a premium in Japan. It may be said that this argument is unsound, because two of the banks of Yokohama will sell bills on China for silver yen on equal terms with Mexican dollars. That these banks will do so is true, but they will regulate their exchange accordingly. If 100,000 yen have to be remitted to China where they will only realise 98,500 Mexican dollars, the rate for the banks' drafts will be in proportion; if the would be purchasers of the drafts are dissatisfied they may send specie remittances in lieu of bills. This is a reasonable and necessary consequence of the notification. The Japanese government may be benefited by the timely acquiescence of the two banks

in their financial measures; but foreign exchanges, as we said before, will be materially affected.

The dilemma in which the commercial community is placed.

Before acceding to the request of the Hongkong and Shanghai Banking Corporation embodied in their circular note issued some twenty days after their acceptance of the yen, depositors will probably want to know what guaranty, if any, can be given that the losses in exchange hitherto entailed upon the sellers of silver yen for dollars will not be compulsorily transferred to the purchasers of drafts on other countries. Those purchasers must, necessarily, be at the mercy of the banks. Their choice must be between the banks' rates of exchange or the cumbersome and unsatisfactory remittance of actual specie, to be realised at the same per centage of loss at the port of its destination as would have been entailed had the bills of the banks been purchased. This is clearly the dilemma into which the banks' notification of September 19th places the commercial community. How is it to be overcome?

Instances.

Supposing that returns on business are made from San Francisco in bank bills representing dollars, or are made in dollars themselves, in what position would the recipient in Yokohama be if he wanted to send this money on to Hongkong?

The bills would be for Mexican dollars, not yen: or if specie came over it would be in Mexican dollars and not in yen.

The recipient, therefore, either receives Mexican dollars in specie or a bill on a bank representing such dollars in specie, and is desirous of forwarding these dollars on to Hongkong.

Under the new system inaugurated on the 19th September, the banks here would not give a better rate on Hongkong for Mexican dollars than they would for an equal quantity of yen; but if the recipient were to send the dollars in specie to Hongkong he would obtain a better result than if he were to send the equal number of yen.

It follows, therefore, that if the banks were to be the means through which this transfer of money to Hongkong were made, the banks would profit to the amount of difference in value between the yen and the Mexican dollar in Hongkong, and the actual owner of the money would be a loser to that extent on the operation.

So long as a difference in value exists between the yen and dollar in Hongkong and China, so long ought the yen and dollar to be distinct in value with regard to foreign exchanges in Japan, otherwise the import merchants will lose in all their remittances to the extent of the difference in value. And it must not be overlooked that the result of every import is *remittance*.

If the banks persist in adhering to their decision of making no difference between the two coins in Yokohama, either in local payments or in their rates of exchange, import business will have to be conducted from abroad by documentary bills accompanying each shipment.

Consequence of
the persistence
of the banks.

SILVER YEN.

Japan Gazette, November 5, 1879.

The news from Hongkong possesses more interest than usual because we are able to give an outline of the effect upon the colony of the recent action of the two banks in Yokohama in connection with the silver yen.

Two distinct
coins remain
current in
Yokohama.

The opinion we have held, and it has been consistently adhered to, is that, notwithstanding the notification of the banks, there are two distinct coins current in Yokohama—the dollar and the yen—and that accepting the latter upon a par with the former, the banks or their constituents, one or the other, must certainly suffer.

The report circulated here to the effect that the governor of Hongkong had received telegraphic instructions to legalize the circulation of the yen in the colony, for the accuracy of which our informant gave his personal assurance, does not appear to rest upon any good foundation, for no such intelligence seems to have been received by the colonial government; in fact, the paragraphs circulating the rose-coloured story which appeared in the Yokohama papers created unbounded astonishment in Hongkong; for, it is said, if the governor had communicated with the home government at all upon the matter of the yen he only did so about the middle of last month.

Report that the
home govern-
ment had con-
sented to
legalise yen in
Hongkong
unfounded.

Position of
Japanese silver
coins in Hong-
in October,
1879.

The position of Japanese silver coin in Hongkong at the date of the last advices was that yen were quoted at $1\frac{1}{2}$ to 2 per cent. discount; subsidiary coins have improved from 11 to 9 per cent. discount. Yen are taken in Hongkong, and may be taken also in Canton, for payment in small transactions, but merchants will not receive them as the inland country traders resolutely refuse to look at them at present, whatever they may do hereafter. Under such circumstances as these the action of our two banks is regarded in Hongkong with much surprise, and the adjustment of foreign exchanges in Japan is justly looked upon as impossible if the yen is to be there compulsorily placed upon a par with the Mexican dollar. It is very manifest that if 100,000 yen will only realize 98,000 Mexican dollars in Hongkong, exchange must be regulated accordingly, and the question naturally arises who is to bear the loss, for loss there must be to either the seller or purchaser of banks' drafts for remittances. This is the dilemma unintentionally but nevertheless created by the banks who, in their anxiety to assist the financial measures of the government, seem to have overlooked, or to have disregarded as unimportant, the serious effect of the measure upon foreign exchanges. As the end of all importation is remittance what is to be done? Will the banks who have seen fit to declare the yen to be at par with the dollar insist upon the same exchange for both, when the former is positively unsaleable in China except at a discount of two per cent. upon the latter? In such an event the action of the banks becomes an intolerable interference with the basis upon which foreign trade in imports is conducted.

JAPANESE COIN FOR FOREIGN CIRCULATION.

Japan Gazette, March 13, 1880.

Can Japan with-
out loss mint
coin for China?

The discussion in the Hongkong chamber of commerce respecting the advisability of legalizing the circulation of Japanese yen in that colony presents some features of interest. The chairman, Mr. William Keswick, struck at the very root of the matter by asserting that the Japanese "cannot mint the coin and put it in circulation without losing by it. If in Japan there was a large production of silver and by stamping

it in the form of a yen and giving it currency, money could be made by it, I think we would have every guarantee for the purity Mr. Jackson has mentioned, but so far as I can understand the question the Japanese nation is not in a position to obtain from Japan silver in such quantity as to make it a permanently paying thing to issue that silver coin, and if Japan has to go into other markets for silver I don't think it is likely the issue will be long continued." Mr. Ryrie attempted to meet this by saying that, although the Japanese "might lose on making the yen supposing they coined nothing else, they can make their mint pay with smaller silver coinage and copper coinage, and therefore can afford to coin the yen on much better terms than a mint which did not produce these coins." We will examine the position relied upon by Mr. Ryrie. The result of the working of the mint proper (exclusive of the refinery and sulphuric acid works) is shown in the following abstract from the official reports. The coinage has been :—

Gold.....	value yen	52,562,739	Total sum coin-
Silver	" "	9,703,841	ed at cost of
			mint.
Total	yon	62,266,583	

The above sum has been coined chiefly at the cost of the mint. Upon the following coins a profit has been made :—

Silver subsidiary.....	nominal value yen	19,143,729	Coin on which
Copper	" "	4,868,803	a profit has been
			made.
Total	yon	24,012,529	

and we estimate the profit derived there from :—

On silver only 800 fine.....	yen	1,914,372	Estimate of
" copper, intrinsic value about 1,000,000 yen.	"	3,868,803	profit.
" mintage charges on other coins	"	758,781	
	"	6,541,956	
Expenditure	"	3,280,780	
Net profit..	yen	3,252,176	

Balance at credit of the mint, but against the country at large.

Subsidiary coins are not current.

Copper coined already amounts to 437,000,000 pieces.

Subsidiary coin cannot be issued at par when it can be purchased at a discount.

Mintage, therefore, a loss to Japan.

It is clear, therefore, that the balance of the working account is to the credit of the mint, but the transactions generally are heavily against the country at large. We know the small silver coins are for sale in the market at a discount in excess of their intrinsic value, thus indicating a greater supply than the country can use: large quantities have been bought up for export as bullion; and in the country itself the coin does not readily circulate. In the open ports the government offices entitled to receive payment in specie will not accept two fifty-sen pieces as the equivalent of one yen; and though it is admitted that the subsidiary silver coinage of all countries does not possess the intrinsic value it purports to have, still the measure of deterioration in Japan is excessive, the result being that the entire issue, some nineteen millions of yen, has either been put into circulation at the expense of the government, or forms a tax upon the people who have accepted it. Copper coins may not be open to the same objections as silver subsidiary coins, because they are merely tokens readily circulating in Japan, and the profit accrued to the mint from their manufacture is so far legitimate; but as 437 million pieces have already been coined it is reasonable to assume that the benefits derivable from the issue are not likely to be of any consideration in the future. In face of facts which were certainly obtainable by Mr. Ryrie, it seems inexplicable that a gentleman of his experience as chief of the oldest mercantile house in China, should have used reasoning so fallacious. The profit said to have arisen from small silver is visionary so far as this nation is concerned; and, for the future, if the coinage be continued, a profit will be nominally made by the mint issuing coins that do not contain the value they purport to contain, and an equivalent loss will be sustained by those departments which put them into circulation; for it will be clear that no person will accept these tokens from the government at par, when they can be purchased in the market at 13 per cent. discount. This difficulty has been foreseen to some extent by the government, who have endeavoured to meet it by announcing their intention to withdraw from circulation all paper currency under one-yen in denomination, replacing it with subsidiary silver. We think, therefore, the evidence strongly supports Mr. Keswick. The question of continuing the coinage of the yen must

be of vital interest, and if it be known, as it assuredly is, that the coinage can only be carried out at the expense of the government of Japan, the period of continuance will depend obviously upon the value set upon the vanity which desires to coin silver money for circulation abroad by a country where no silver worthy of consideration is produced.

Mr. Jackson made two statements which require some explanations. The Hongkong and Shanghai Banking Corporation was mainly instrumental in prematurely making the yen current here at the cost of the foreign exchange of every merchant in the place, and it is not surprising that the circulation of the coin in Hongkong should be warmly supported by the chief manager; but we hope his enthusiasm has not led him into the commission of errors which, when exposed, must go far to weaken the arguments he made use of. Thus, referring to the question of guarantee, Mr. Jackson said.—“We might say, what guarantee have we with regard to the Mexican dollars? We have no guarantee under the sun. We know nothing about the people who manufacture them, but we do know this that they have hit upon a very profitable industry, that the coins are always marketable because of their purity, and that it is therefore to their interest to maintain that purity.” Was it Mr. Jackson's wish to lead his hearers to believe that, because the Mexican mint was profitable that of Japan must be so likewise; and that the self interest arising from a so called profitable industry is sufficient guarantee against debasement? We may reasonably take this to be his intention and deal with Mr. Jackson's matter in that light. For this purpose it is necessary to briefly describe what is meant by the Mexican mint. There, mintage is considered to be the best form of taxation of the metallic products of the country, and it is, consequently, enforced. All silver produced by the mines of any state in that republic has to be passed through the mint before leaving that state. It cannot be exported, even from state to state, legally, or without defrauding the producing state of its legitimate dues. The export of bar silver is contraband, or was so until lately, but if it is now allowed to be exported it is subjected to a heavier export duty than Mexican dollars which pay mintage fees, and which, on export, have to pay a proportionate export and a heavy circula-

Instrumentality of the Hongkong and Shanghai Bank in making the yen current in Japan.

The views of the bank's chief manager in regard to mintage generally.

Mexican mint being profitable that of Japan should be so likewise.

What is meant by the Mexican mint?

Bar silver contraband of export.

Many mints in Mexico.

Silver production is for the benefit of each separate state.

Mints sometimes farmed out.

Government inspectors.

Every process watched.

Consequence of attempt to evade the law.

No inducement to debase coin in Mexico.

Silver is the product of Mexico. All other industries are secondary.

tion duty to compensate for an assumed benefit that would arise from their remaining in circulation in the country. There are a number of mints in Mexico, principally in the silver producing states. The central government have entire control of these mints, but the states benefit to a small extent on the coinage. Silver produced in these states has to be sent to the mint before it can become a circulating medium. If silver is discovered in any state not having a mint, it has to be sent to one of the nearest states which has a mint. All these mints, although under the absolute control of the central government, are not always actually worked by the government. It frequently happens that some of them are farmed out to private individuals or companies against loans made to the government. In such cases the government send an inspector and assayer to reside at each mint to watch every melting and issue of coin by extracting from the furnaces a sample of every charge, and two coins from every issue. In fact, every process, from the furnaces to the coinage press, is carefully watched and assayed; and pieces from the completed coinage delivered from the presses to the treasury are extracted by the government inspectors for transmission to the central government. If the coinage is not up to the standard the inspectors demand the re-coinage of the whole lot presented. Any evasion of the law, or attempt to debase the coin, would infallibly deprive the farmer of the mint of all his property therein.

These conditions certainly form a good guarantee to the Mexican government; and the check upon the government is afforded by the fact that the silver coined by them is not their own, but must be returned to the person who sent it in to the mint. If the latter requires coin for export he will use every precaution to see that the money delivered to him is pure. There is no inducement for a government, especially a republic, to debase coin minted under such circumstances. They would simply defraud themselves.

Mr. Jackson's remark that the government of Mexico have hit upon a profitable industry is based upon an erroneous application of the circumstances. The industry of Mexico is mining, and reducing the ores into metallic form; all other large industries are subservient to this principal one, and exist almost solely to maintain

the greater. The mintage is a tax upon this great industry, and cannot be looked upon as an industry of itself. It is rather a means adopted by the government of ascertaining the quantity of silver produced upon which a duty can be levied. We are not clear whether bar silver is exportable from Mexico, but we know that some time ago a movement was made to allow this traffic upon terms more or less equal to coined silver. If it is exported through the usual legitimate process, bar silver could not go forward to the world at a higher intrinsic value than dollars, because all bar silver must pass through the state assay office and be marked with the government stamp of fineness before it leaves the state or is sent to the mint. In fact, the cost of bar silver exported from Mexico would, in order to protect the mints, be more costly to a purchaser than an equal production of dollars. We quote this circumstance to show that it would be cheaper for Japan to import Mexican dollars than Mexican bar silver for the purposes of its mint, and if Hongkong will not accept the yen at a higher value than the Mexican dollar, Japan must lose money in supplying that colony with its coin if kept up to its present purity; and it is in the history of the world that governments, when they get into difficulties, do not hesitate to debase their coinage. The difficulty of Japan is its excessive paper currency, and its deficiency of bullion. How then can Japan give bullion to Hongkong? This question should be answered before more serious attention is given to this subject, for, upon its satisfactory solution, depends the power of Japan to keep up a supply of yen.

Bar silver may be exportable, but will be as costly to a purchaser as the coined metal.

Japan's difficulty is deficiency of bullion.

To residents in Japan who know more about the circumstances of the country than the gentlemen who argued upon this subject in Hongkong, it appears surprising that Mr. Jackson should have spoken in a way to lead his hearers to believe that as hitherto the export of bullion hence has been large, the same excessive export may be expected in future. The heavy export heretofore has been from an accumulation of precious metals, gold and silver, in the country; but we cannot agree with Mr. Jackson in his assertion that all these metals were the produce of Japan.⁽³⁴⁾ If Mr.

Export of silver from Japan.

Accumulations of the past.

(34) Mr. Jackson said:—"We all know that it is but a few years since Japan was opened, and before that not a single ounce of silver was imported into the country. Well, how comes it that

Whence Japan derived supplies of gold and silver.

Errors in Mr. Jackson's estimates.

Jackson had given a little attention to historical records he would have qualified this broad statement. Centuries ago the Japanese people traded with China, Portugal and Holland, the former paying gold, and the two latter silver for their trade. So far as the amount of export is concerned we have been quite unable to find any statistics that can in any way support Mr. Jackson's estimate. One hundred million dollars worth of *old coin* must refer to the silver bu, and it is exceedingly doubtful if anything approaching that large sum was ever coined in this country. The records of the import and export of treasure are confessedly imperfect, but if we refer to such statistics of trade as are obtainable, a different conclusion as to the amount of coin of all kinds exported will be formed. Prior to the operation of the tariff of 1866 foreign trade was indebted to Japan. From 1867 to 1871 inclusive, there was a balance payable by Japan in specie of \$19,942,173. The treasure returns in the official list from 1st January, 1872, to 30th June, 1879, show as follows:—

Net export of specie.

Exported	\$78,066,222
Imported	23,613,420
	<hr/>
	54,452,800
Previously exported	19,942,173
	<hr/>
Total export of specie.....	<u>74,394,973</u>

Proportion of gold and Mexican dollars.

Of which sum at least forty millions consisted of gold coin, and a very considerable quantity of Mexican dollars re-exported. We should very much like to know Mr. Jackson's authority for the assertion made by him. Every since the memorable speech of Mr. Hennessy valuing the trade of the colony at 500,000,000 dollars, Hongkong statistics have given rise to curious speculation, not so much in regard to their exaggeration as to the degree of that exaggeration.

Guarantee of standard is a reasonable request to prefer to the Japanese government.

Finally, we may point to the ultra-sensitiveness of those gentlemen who deemed a proposition to ask for some guarantee of standard an insult to the government.

during the last twelve years a hundred million dollars worth of silver coins have been exported from Japan—of old coin, some of over a hundred years ago? I believe the mint is a very profitable concern taken as a whole."

There are two foreign gentlemen in the service of the mint, Mr. Gowland, chemist and assayer, and Mr. MacLagan, engineer, but, as Mr. Nelson very properly said, "the employment of Europeans by the Japanese is not a thing that can be counted on from month to month in any of their departments." While Mr. Gowland remains there is an implied guarantee to some extent. Should he depart and his place be filled by a Japanese official, more time will be required to inspire confidence in the actions of the mint, though there is every reason why the government should have credit for *optima fide* in the manufacture of their coinage. This opinion is fully appreciated by the government, and, as the circulation of their yen is a matter of business, it is difficult to understand how a proposition for a reasonable condition could offend a party claiming to be animated by the best motives. Such extreme tenderness would be out of place with any government when money is in question.

This article has already exceeded reasonable limits, but we must point out, in conclusion, that the position we have always taken is one that cannot be gainsaid. If yen are to be coined in Japan for circulation abroad, the work will be done at a heavy cost to this already overtaxed and paper currency burdened country. How long such a coinage will last, if it be begun, is the great question to be considered here and elsewhere.

Yen coined by Japan for foreign circulation will be a tax upon the country.

THE MINT FALLACY AGAIN.

Japan Gazette, May 6, 1882.

The *Chingai Bukka Shinpo* reopens a matter which public opinion long ago set at rest. We may well express astonishment at the infatuation which leads Japanese to believe in the possibility of taxing the current coin of the east in the form of a percentage for mintage; and the more so when a journal under such control as is the one from which we are about to quote endeavours to revive public expectation in a fallacy which experience should have sufficiently exposed.

Our Japanese contemporary says:—

When our government first minted silver coin they adopted a standard weight of 416 grains of 900 fine. Soon after the United States issued a dollar of 420

The question re-opened two years later.

Views of the *Chingai Bukka Shinpo*.

grains of 900 fine, and our government immediately followed suit and produced the *boyeki-gin* (trade yen) of the same weight and fineness. This coin was not, however, continued and the former was reverted to. In the meantime our government have made great exertions to bring our coin to par with Mexican dollars, in order that it may circulate as currency in oriental nations (*sic*). To further this object the government advanced large sums to a few foreign banks as a fund for exchange purposes; whereupon those banks agreed to accept silver yen at par with Mexican dollars. The latter, however, having greater credit in the east than our coin, yen are at a discount of one per cent. at least, notwithstanding the efforts that have been made to raise it to par. Therefore, although the rate of exchange on Europe is expressed in our coin, the rate is better when the medium of exchange is Mexican dollars. The object of our government has not, therefore, succeeded; but the quality and weight of yen remaining always the same, and it is known that coinage may be had at any time if the bullion be imported, the coin has gradually obtained credit, and can now be circulated at par in the Straits Settlements. A proof of this fact is afforded by the increase of the number of applicants at the mint for the conversion of silver bullion into yen. Again, the governor of Hongkong, Sir John Hennessy, memorialised the British government on the expediency of recognising the Japanese coin as the standard silver coin [in that colony]. We have not heard whether this request was acceded to or not. If the coin gains public credit there can be no obstacle to its circulation, nor will the British government have any reason for refusing to acknowledge the yen as the standard; and we believe that before long the British government will do all that is necessary; and the time draws near when our coin will gain credit with eastern nations, and we earnestly hope our government will extend the mint operations and renew their endeavours to make yen the circulating medium of the east.

Four errors in the preceding review.

1. That any coin circulates in the east.

The writer of this paragraph has fallen into several more or less important errors; while his conclusion is evidently due to ignorance of the true nature of coin as currency in the east. The errors are four in number. 1. That any coin *per se* circulates in the east. That an ordinance has been passed in the Straits Settlements declaring silver yen a legal tender at par with Mexican

dollars, may be the case ; but it is just as improper and indefensible as the action of the Hongkong and Shanghai and Oriental Bank Corporations here, when they announced their intention, without reference to the merchants affected by the measure, to accept yen at par with dollars ; a resolution which has been ever since carried out at the expense of foreign exchanges. Why a mercantile community like this has submitted so long is a mystery. The fact must, we suppose, be ascribed to the apathy and inaction which mark the people of the treaty ports of Japan. This bank notice was issued to oblige the Japanese government, who fondly thought that if the yen could be made a forced tender in the open ports, and in Hongkong, Singapore, &c., all the east would rush to Japan with bullion for coinage. This hope was frustrated, because every man knew the banks' notice was waste paper, and that the difference in value between yen and dollars which existed before the notice was issued existed afterwards, and exists at this day. The confusion in the minds of Japanese writers on this subject arises in great measure from an impression that the dollar is current in China ; that is, among the Chinese people. The error is patent. The dollar is not accepted as a dollar. It is merely a piece of silver of a certain recognized quality, trusted from long experience, and accepted by those merchants who come in contact with foreigners. When a Chinese merchant has a balance in silver to receive, he requires payment by weight. His coin of account is the silver tael, and for 100,000 dollars he requires 71,700 taels weight of silver, irrespective of the number of coins requisite to make up that sum. He will take dollars by weight because he trusts them, not as dollars but as silver of a given quality. He has not yet learned to trust the yen, and all the notifications of foreign governments cannot influence him in this respect. When yen are plentiful enough to be always before the Chinese ; when those coins have successfully passed through the numerous and varied tests which suspicion will subject them to, the difference in value in relation to the Mexican dollar will die away of its own accord. Until then the *Chiugai Bukka Shinpo* may rest assured that no efforts of this government can avail unless the first movement is to import sufficient bullion to stock the markets of China with yen. This will be a costly

process, and the object to be gained is at best doubtful. So long as Japan chooses to supply the east with a coin bearing the impress of the Japanese mint, she may gratify her vanity and eventually succeed in passing her coin at par with Mexican silver: but such action will not induce independent persons to send bullion to the Japanese mint, pay the expenses of transport there and back, one per cent. for coinage, and submit to the inevitable delay, in order to obtain a coin which is of no greater use or value than uncoined silver of the same fineness, and to which it is destined to be quickly reconverted.

2. The supposition that a non-silver producing nation can coin to advantage.

2. The second error is the evident impression that a country which does not produce silver can still coin to advantage. If Japan were rich in bullion, the mint would be a fairly legitimate method of taxation of that product. As in Mexico, which depends for its revenue chiefly upon the mint returns, coined Japanese silver could be exported duty free; while uncoined silver should be subjected to an export duty in excess of the mintage fee.

3. That mintage is increasing.

3. The third error is the statement that the conversion of silver bullion into yen is increasing. If government coinage is included there is an increase; if coinage for non-official persons only is intended, and it is only by that the mint can benefit, there is a decrease. Here are the returns of silver accepted for coinage:—

	1880.	1881.	
	Ounces at .900.	Ounces at .900.	
Government.....	1,317,877	3,196,302	increase..... 1,878,425
Other persons	1,599,882	1,174,241	decrease..... 425,441

4. That the British government will interfere.

4. The fourth error is the assumption that the British government may be induced to recognize a foreign coin as a standard in their colonial possessions. The British government never interfere in such matters. If their people demand laws to give effect to certain necessary and beneficial resolves of the majority, the questions are duly weighed by the government and, where possible, effect is given to the requests. In England, different to what it is in Japan, the government do not attempt to take the initiative, or to meddle with commerce or currency. Their duty is to carry out the public wishes when those wishes have been sifted and found beneficial for the common interest. The

British government have refused, therefore, to listen to the proposal to legalize the yen in the colony of Hong-kong, their reply being virtually to the effect that the colonists may accept the yen or not as they like, the home government having no desire to interfere with their action in any way.

Perhaps consideration of these facts will induce the *Chiu-gai Bukka Shinpo* to acknowledge the absurdity of the position its own argument reduces this country to. Here is Japan, itself suffering from a silver famine, producing no silver within its own borders, claiming a sort of right, or at least expressing a wish to tax the commerce of the east by levying a mintage charge on the sole medium of tradal exchange, silver bullion. Were it not for the wants of government gold and silver coinage at the mint would be most trifling. Government require a certain sum annually which is furnished in yen. Where the bullion for coinage comes from we do not know. The customs in great measure perhaps, or it may be imported. The fact nevertheless remains that the bullion used, wherever it comes from, had a greater value before than after mintage, and that the labour expended upon it is wasted. If there were no paper money in Japan a silver coin would be required for internal use ; then the mint would be useful and to some extent profitable : but so long as Japanese coined silver is not current in Japan itself where it is virtually superseded—supplanted—by the inconvertible government note, the mint can never be used to advantage for silver currency : while its profitable uses as a provider of coin for external circulation have never been apparent, and never will be ; for the first essential of a mint in a non-bullion producing country is that there shall be no charge whatever for coinage. The mint is a public convenience supported by public funds in England : in Japan, the government have fallen into the mistake of trying to make it yield a surplus on the working over and above the profit on subsidiary moneys : and herein lies the true secret of the failure of the mint to give a working coin to the east.

The mint in
England and
in Japan.

(FINIS.)
